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Politics this week

Jan 31st 2008
From The Economist print edition

Reuters

John McCain won the Republican primary in Florida, confirming him as the clear front-runner in the party's nominating process ahead of Mitt Romney. **Rudy Giuliani**, who held front-runner status for all of last year, came third. He pulled out of the race and endorsed Mr McCain. See article

Hillary Clinton claimed a victory in Florida's Democratic primary. Her opponents said it didn't count because the state has been punished by the national party for jumping its election schedule; no campaigning took place and no delegates were awarded. **John Edwards** ended his challenge for the Democratic nomination after the contest.

It was a good week for **Barack Obama**. He trounced Mrs Clinton in the South Carolina Democratic primary and secured the endorsement of Edward Kennedy, the lion of the party's liberal wing. See article

George Bush gave his last **state-of-the-union** speech, in which he touted progress in Iraq and called for an additional $30 billion for AIDS relief in Africa. He also urged Congress to pass quickly a $150 billion economic stimulus package to ward off a recession. The House promptly did so, but some senators asked for extra provisions, mainly for the elderly. See article

Arnold Schwarzenegger's ambitious blueprint for reforming **health care** in California was delivered a deadly blow when a committee in the state Senate voted it down on the ground it was too expensive. The plan would have ensured that most Californians had their medical costs covered and was viewed as a model for other states to follow.

Tilting at windmills

Venezuela's president, Hugo Chávez, called on other Latin American and Caribbean countries to form a military alliance against the United States. There has been no rush to join up. See article

Ricardo Palmera, the most senior leader of the FARC rebels in **Colombia** to have been captured after four decades of conflict, was jailed for 60 years by a United States court in connection with the kidnapping of three American intelligence agents. The FARC has repeatedly asked for Mr Palmera's release in exchange for some of the hostages it is holding, including the three Americans.

Ecuadorian officials investigated the slaughter of 53 sea lions in the **Galapagos Islands** nature reserve. All had their heads bashed in. The motive is unknown.

A debatable legacy

AFP

Indonesia declared seven days of national mourning for **Suharto**, its former president, who died at the age of 86. President Susilo Bambang Yudhoyono presided over the funeral at the Suharto family mausoleum near the city of Solo in Java. See article

Thailand's parliament elected Samak Sundaravej as prime minister. Mr Samak, leader of the People's Power Party, has described himself as a “proxy” for Thaksin Shinawatra, who was ousted as prime minister in a coup in 2006.

Paddy Ashdown announced that he would not be taking up a post as the UN representative in **Afghanistan** following objections from some quarters,

including President Hamid Karzai.

Sheikh Hasina Wajed, a former prime minister of **Bangladesh**, went on trial for extortion. She is one of dozens of politicians and others arrested on corruption charges by the army-backed interim government that took power a year ago. She denies the charge.

Merkel's magic fades

Angela Merkel's Christian Democrats did badly in two **German state elections**, in Hesse and Lower Saxony. The Social Democrats did better, but not much. The biggest winner was the Left Party, which in both elections crossed the 5% threshold for parliamentary seats. See article

After the resignation of Romano Prodi as **Italy's** prime minister, the president asked the speaker of the Senate, Franco Marini, to form an interim government. The idea is that it could reform the electoral law before a new election is held. But the main opposition leader and former prime minister, Silvio Berlusconi, is demanding an election as quickly as possible. See article

Russian authorities rejected the candidacy of Mikhail Kasyanov, a former prime minister, for **Russia's presidential election** on March 2nd, because, they said, 13% of the 2m signatures supporting his campaign were invalid. There are now four runners, including Dmitry Medvedev, the choice of President Vladimir Putin, and Vladimir Zhirinovsky, an extreme nationalist. See article

Two parties in the **Turkish parliament** drew up plans to permit the wearing of the Islamic-style headscarf in universities. The parties have enough votes to overturn the constitutional ban on the headscarf that was imposed by the army in 1997. Secularist Turks expressed their alarm.

Once more unto the breach

The governments of **Egypt** and **Israel**, together with the Palestinian Authority in the West Bank, pondered over how and whether to re-establish control of the border between the Gaza Strip and Egypt, which many thousands of Gazans have been crossing after its fence was blown up with the approval of Hamas, the embattled Islamist movement that runs the territory. See article

A bomb killed Wissam Eid, a senior **Lebanese** member of a police team assisting a UN investigation into previous assassinations in Lebanon. His death sent a message that someone will stop at nothing to wreck the case before it reaches a special international tribunal at The Hague. See article

In **Kenya**, representatives of the government and the opposition Orange Democratic Movement started talks, mediated by a former UN secretary-general, Kofi Annan, to try to resolve their differences over December's disputed election. Some 1,000 people have died in violence that is spreading throughout the country, especially in the Rift Valley. See article

AFP

Zimbabwe's president, Robert Mugabe, called general and presidential elections for March 29th, prompting complaints from the opposition that there would not be enough time to prepare for a fair poll.

South Africa's parliament held a special session to debate an electricity crisis; the country has been hit by a series of blackouts since the new year. The energy minister suggested, among some of the ways to conserve power, that people should go to bed early. See article

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Business this week

Jan 31st 2008
From The Economist print edition

France continued to reel at the scale of the trading scandal at **Société Générale**, the country's second biggest bank. Jérôme Kerviel, the trader said to be responsible for a *euro*4.9 billion ($7.2 billion) loss, was placed under formal investigation by the courts for forgery and breach of trust. France's president, Nicolas Sarkozy, dropped a strong hint that Daniel Bouton, SocGen's boss, and other executives should go. SocGen's board disagreed, giving Mr Bouton a unanimous vote of confidence. See article

Alliance Data Systems filed a lawsuit against **Blackstone Group** to force the private-equity firm to complete its buy-out of the processor of credit-card transactions. Blackstone says the deal is in jeopardy, blaming "unprecedented" requirements from banking regulators that would leave it with an "unlimited and indefinite" liability.

Sallie Mae reached an arrangement with several banks that gives it $31 billion in new financing. The deal ends a legal tussle with the consortium that backed away from a $25 billion offer for the American provider of student loans.

Valentine's Day massacre

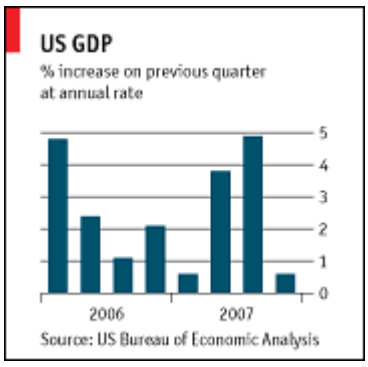
UBS disclosed the extent of its recent losses. The Swiss bank said it expects to have made a net loss of SFr12.5 billion ($11.5 billion) in the fourth quarter and SFr4.4 billion for the whole of 2007. It is due to reveal the official figures on February 14th. It also forecast that its losses on assets stemming from America's mortgage market would be around SFr16 billion, higher than had been expected.

India eased limits on foreign direct investment in six industries, including commodity exchanges, credit-information firms, oil refining, titanium mining and parts of aviation, such as cargo planes and pilot training (but not domestic passenger airlines).

Munich Re sounded a cheery note in yet another gloomy week for investors when it reported a record profit of *euro*3.9 billion ($5.3 billion) for 2007 and stated that its exposure to risk in the subprime and bond-insurance markets was small. The reinsurer was also helped by a relatively quiet Atlantic storm season.

Which way is up?

America's economy slowed considerably in the last three months of 2007. According to the first official estimate GDP grew by just 0.6%, annualised, in the quarter. Following its recent emergency cut in the federal funds rate, the **Federal Reserve** made a further half-point reduction, to 3%. See article



In an update to its October forecast the IMF trimmed its expectations for the **world economy**, which it said would grow by 4.1% this year. Its outlook for the euro area was markedly worse than in last autumn's report; it also shaved the region's GDP growth rate, which is now expected to be 1.6% in 2008. Dominique Strauss-Kahn, the fund's head, gave his blessing to the fiscal stimulus package being thrashed out in America and urged other countries to take similar measures.

Scottish & Newcastle, a British brewer, accepted a takeover offer of £7.8 billion ($15.4 billion) from **Carlsberg** and **Heineken**. The Danish and Dutch brewers will split S&N's operations: Carlsberg will take ownership of the thriving Russian business; Heineken gets S&N's American and British brands, including Newcastle Brown Ale.

Batten down the hatches

Yahoo! said it would cut 7% of its workforce after net profit fell by 23% in the fourth quarter, compared with a year earlier, to $206m. The company also predicted that it would soon face “headwinds”. Analysts anticipate a squeeze in advertising revenue this year.

BSkyB, Britain's biggest pay-TV operator, was ordered to reduce its stake in **ITV**, a national broadcaster, from 17.9% to below 7.5%. Part of the News Corp empire, BSkyB bought the holding in 2006, thwarting a takeover of ITV by Richard Branson's Virgin Media. ITV's share price has since fallen and BSkyB is writing down its investment by £343m ($681m). It has a month to appeal against the decision.

The scrap intensified between **IAC/Interactive**, an internet conglomerate that counts Ask.com and Ticketmaster among its assets, and **Liberty Media**, which is run by John Malone and controls a majority of the voting rights in IAC's share structure. Liberty filed a lawsuit seeking the removal of Barry Diller as IAC's boss, which IAC described as “preposterous”, maintaining that “Liberty does not control” the company.

Qtrax, a company promising free legal music-downloads on its website, launched its service with much ceremony in Cannes, but was soon embarrassed when the big recording labels said they had not negotiated licensing deals. Roughly 61,000 users an hour logged on to Qtrax only to hear the sound of silence.

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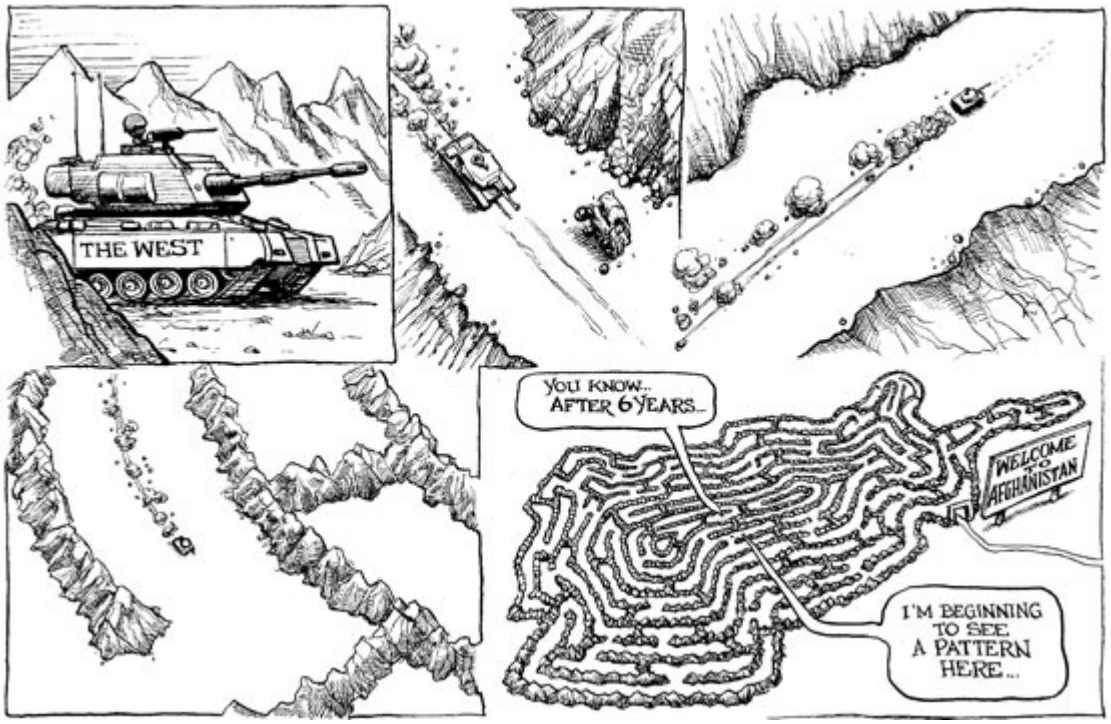
KAL's cartoon

Jan 31st 2008
From The Economist print edition

Illustration by Kevin Kallaugher



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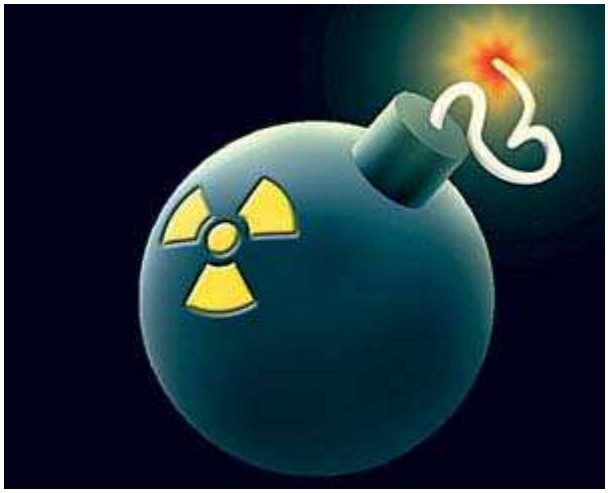
Nuclear proliferation

Has Iran won?

Jan 31st 2008
From The Economist print edition

The ayatollahs have wriggled off the nuclear hook, but there is a way to put them on again



WHO would have thought that a friendless theocracy with a Holocaust-denying president, which hangs teenagers in public and stones women to death, could run diplomatic circles around America and its European allies? But Iran is doing just that. And it is doing so largely because of an extraordinary own goal by America's spies, the team behind the duff intelligence that brought you the Iraq war.

It doesn't take a fevered brain to assume that if Iran's ayatollahs get their hands on the bomb, the world could be in for some nasty surprises. Iran's claim that its nuclear programme is entirely peaceful is widely disbelieved. That is why Russia and China joined America, Britain, France and Germany at the UN Security Council to try to stop Iran enriching uranium. Until two months ago they seemed ready to support a third and tougher sanctions resolution against Iran. But then America's spies spoke out, and since then five painstaking years of diplomacy have abruptly unravelled (see article).

The intelligence debacle over Iraq has made spies anxious about how their findings are used. That may be why they and the White House felt it right to admit, in a National Intelligence Estimate in December, that they now think Iran halted clandestine work on nuclear warheads five years ago. As it happens, this belief is not yet shared by Israel or some of America's European allies, who see the same data. But no matter: the headline was enough to pull the rug from under the diplomacy. In Berlin last month, the Russians and Chinese made it clear that if there is a third resolution, it will be a mild slap on the wrist, not another turn of the economic screw.

At the same time, Iran is finding an ally in the International Atomic Energy Agency (IAEA). Its director-general, Mohamed ElBaradei, is a Nobel peace-prize winner who is crusading to confound those he calls “the crazies” in Washington by helping Iran to set its nuclear house in order, receive a clean bill of health and so avert the possibility of another disastrous war.

Honest spies, a peace-loving nuclear watchdog. What can be wrong with that? Nothing: unless the honesty of the spies is deliberately misconstrued and the watchdog fails to do its actual job of sniffing out the details of Iran's nuclear activities.

Thanks for letting us off

Beaming like cats at the cream, a posse of Iranians went to January's World Economic Forum in Davos

claiming a double vindication. Had not America itself now said that Iran had no weapons programme? Was not Iran about to give the IAEA the answers it needed to “close” its file? In circumstances like these, purred Iran's foreign minister, there was no case for new sanctions, not even the light slap Russia and China prefer.

Yet Iran's argument is a travesty. Although the National Intelligence Estimate does say that Iran probably stopped work on a nuclear warhead in 2003, it also says that Iran was indeed doing such work until then, and nobody knows how far it got. The UN sanctions are anyway aimed not at any warhead Iran may or may not be building in secret, but at what it is doing in full daylight, in defiance of UN resolutions, to enrich uranium and produce plutonium. We need this for electricity, says Iran. But it could fuel a bomb. And once a country can produce such fuel, putting it in a warhead is relatively easy.

Some countries, it is true, are allowed to enrich uranium without any fuss. The reason for depriving Iran of what it calls this “right” is a history of deception that led the IAEA to declare it out of compliance with its nuclear safeguards. So it is essential that Mr ElBaradei's desire to end this confrontation does not now tempt him to gloss over the many unanswered questions. With a lame duck in the White House and sanctions unravelling, Iran really would be home free then.

Would it be so tragic if a tricky Iran were to slip the net of the Nuclear Non-Proliferation Treaty? North Korea quit the treaty and carried out a bomb test in 2006. Israel never joined, saying coyly only that it won't be the first to “introduce” nuclear weapons into the region—but won't be the second either. India and Pakistan, two other outsiders, have already strutted their stuff. Why should one more gate-crasher spoil the party?

One obvious danger is that a nuclear-armed Iran, or one suspected of being able to weaponise at will, could set off a chain reaction that turns Saudi Arabia, Egypt, Syria, even Turkey rapidly nuclear too. America and the Soviet Union, with mostly only their own cold war to worry about, had plenty of brushes with catastrophe. Multiplying Middle Eastern nuclear rivalries would drive up exponentially the risk that someone could miscalculate—with dreadful consequences.

Time for Plan B

For some this threat alone justifies hitting Iran's nuclear sites before it can build the bomb they fear it is after. But if Iran is bent on having a bomb, deterrence is better. Mr Bush has already said that America will keep Israel from harm. By extending its security umbrella to Saudi Arabia and Egypt, America might stifle further rivalry before the region goes critical.

Much better, however, to avoid a nuclear Iran altogether. Mr Bush says diplomacy can still do this. It is hard to see how. But he does have one card up his sleeve: the offer of a grand bargain to address the gamut of differences between America and Iran, from the future of Iraq to the Middle East peace process. So far Iran's leaders have brushed aside America's offer of talks “anytime, anywhere” and about “anything” by pointing to the condition attached: that Iran first suspend its uranium enrichment. Strangely enough, the best way to put pressure on Iran's rulers now is for America to drop that rider.

There would need to be a time limit or Iran could simply enrich on regardless, with what looked like the world's blessing. Similarly Russia and China would need to agree to much tougher sanctions to help concentrate minds. Iran's leaders may still say no. But the ayatollahs would have to explain to ordinary Iranians why they should pay such a high price in prosperity forgone for making a fetish out of not talking, and out of technologies that aren't even needed to keep the lights on. If Iran's leaders cannot be persuaded any other way, perhaps they can be embarrassed out of their bomb plans.

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The death of Suharto

Epitaph on a crook and a tyrant

Jan 31st 2008
From The Economist print edition

Free to mourn or cheer, Indonesians have moved on since Suharto stepped down in 1998

Reuters

HE WAS a despot, a cold-war monster cosseted by the West because his most plausible opponents were communists. Behind his pudgily smooth, benign-looking face lay ruthless cruelty. The slaughter as he consolidated his power in the mid-1960s cost hundreds of thousands of lives. Tens of thousands were locked up for years without charge. After the invasion of East Timor in 1975, the Indonesian occupation led to the deaths of perhaps one-third of its people. Meanwhile, he was robbing his own country blind. Perhaps no leader's family anywhere has ever amassed so much ill-gotten loot. When he was forced to quit at last, the economy was in a tailspin and the stability he had boasted of creating proved an illusion.

So it seems all wrong that after Suharto's death this week, Indonesia declared seven days of national mourning. Television stations (some controlled by his kin) showed laudatory documentaries. The streets were lined with crowds for miles on the way to the hillside family mausoleum he had built, in emulation of the Javanese kings whose successor he seemed to think himself. Other statesmen from the region trooped to his funeral to pay their respects: Singapore's Lee Kuan Yew, Malaysia's Mahathir Mohamad and even Timor-Leste's prime minister, Xanana Gusmão.

In Mr Gusmão, from a tiny young nation needing good relations with its neighbour and former coloniser, such magnanimity might be wise. Mr Lee and Dr Mahathir also had reason to honour Mr Suharto, who ended his predecessor's “confrontation” with Malaysia, nurtured regional unity and, like them, shrugged at the West's preaching about human rights. Yet for Indonesians themselves to push the boat out so far for the old kleptocrat suggests a failure to come to terms with the scale of his crimes. Yes, their country made huge economic strides under his 32-year rule, thanks to his delegation of much policymaking to competent technocrats, and superficial political calm prevailed. But at a very high cost.

The government of President Susilo Bambang Yudhoyono—himself a Suharto-era former general—has been a success in many ways. But it has not fostered a culture of accountability. In 2006, when Mr Suharto seemed to be on his deathbed, it dropped criminal proceedings against him. It then instigated a civil prosecution. But neither Mr Suharto nor any of his family has faced trial for corruption (though his son, Tommy, was jailed on a murder charge). Nor has there been a determined attempt to bring to justice those army officers who oversaw atrocities in East Timor and Irian Jaya (now known as Papua) after Mr Suharto fell, let alone those who committed them while he was still in power.

A different country

Yet, if the bad that Suharto did seems to have been buried with him, this week has also shown how far Indonesia has moved on. It is not in thrall to the former dictator's memory. A dozen years ago the death of his greedy wife, Tien (known, inevitably as “Madame Tien per cent”), provoked an outpouring of real or synthetic national grief. This week even Suharto-family television channels were soon back to normal programming. Newspapers vigorously debated his legacy.

Some may hanker for the old certainties of his rule, but not at the expense of their new freedoms. To make sure those freedoms endure, Indonesia needs to face up to the past, and to make a proper accounting for the murky atrocities and untold thievery of Mr Suharto's reign. The rosy nostalgic glow bathing his obsequies is no substitute for true reconciliation. As elsewhere, that needs to be built on historical truth, in which no one in power seemed much interested this week.

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Financial regulation

Repairs begin at home

Jan 31st 2008
From The Economist print edition

Reforming global rules is an appealing idea. But cleaning up domestic regulation is as important

Illustration by Claudio Munoz

GEORGE SOROS, a billionaire investor, wants a “new sheriff” for global finance, an international regulator to heal the “worst financial crisis in 60 years”. Politicians are not far behind. Britain's Gordon Brown wants to transform the IMF into an “early warning system” to head off financial turbulence. France's Nicolas Sarkozy wants “order” imposed on capitalism that “sometimes seems out of control”. At a summit in London on January 29th, Messrs Brown and Sarkozy, with other European political heavyweights, demanded greater transparency from banks and threatened new regulation unless credit-rating agencies changed their ways.

As the first big banking crisis of the 21st century rumbles on, the clamour for reforming international finance is rising. Worries abound over the dissonance between capital markets that know no borders and the patchwork of national rules and regulators that govern them. Global finance, goes the argument, cannot rely on Balkanised domestic oversight.

This rhetoric has a familiar ring. A decade ago, in the aftermath of financial crises that swept emerging markets from Brazil to Indonesia, there were similar calls—often from the same voices as now—to redesign the architecture of global finance. A few outdated international institutions, such as the IMF, were deemed an inadequate infrastructure for a global capital market that could bring down whole economies within days. (Mr Soros claimed then that the capitalist system was “coming apart at the seams”.)

Grand proposals multiplied. Some wanted to turn the IMF into a global lender of last resort; others wanted to abolish it. Some wanted to curb international capital flows; others saw foreign ownership of emerging-market banks as the route to greater stability. For years, meetings of central bankers and finance ministers in the world's big economies had “global financial architecture” at the top of their agenda.

In fact, the results were modest. A few helpful new groups were created, such as the Financial Stability Forum, a regular gathering of financial regulators from rich and emerging economies that is now taking the lead in distilling lessons from the subprime mess. The IMF gained new tools and more expertise in financial matters. New standards were set for the transparency of macroeconomic and financial statistics. But there was no wholesale redesign of a system where global capital flows coexist with predominantly national regulation.

Putting their own houses in order

The big change came instead within the crisis countries themselves. The emerging economies at the centre of the storm in the late 1990s insured themselves against a repeat by adopting flexible exchange rates, strengthening their banks, reorganising their external debts and building up huge reserves of foreign exchange. These domestic reforms, far more than new global rules, have made emerging markets—at least so far—more resilient against financial turmoil than they were then.

That is a lesson politicians should now heed. The chances of an effective global regulatory regime are, if anything, lower today than a decade ago. The origins of today's problems lie not in developing countries that can be pushed around by the IMF but in stronger rich countries, particularly America. The United States has dozens of independent, turf-conscious regulators and financial supervisors. America's failure to rationalise its highly fragmented domestic system suggests there is little chance that it would cede real power to international regulatory bodies.

A more realistic goal is to improve co-operation between national regulators and encourage them to adopt common standards in more areas. The Basel Accords on capital adequacy, which set a common floor for banks' capital, are an example of how national regulators can agree to near-global rules. The Basel committee is, rightly, now looking at rules for banks' liquidity. An international template would be useful elsewhere too, for instance in valuing complex debt structures or in agreeing best practices for credit-rating agencies.

Equally, national regulators ought to be more open with one another. Too many supervisors still think about financial instability in narrowly national terms, even though catastrophes at big banks have international consequences.

For all the benefits of greater international co-operation, though, the most important regulatory lessons from this crisis lie at home. America's failure to supervise the subprime mortgage market comes top of the list. In Britain the collapse of Northern Rock was also largely the result of inadequate national supervision, an outdated system of deposit insurance and the lack of teamwork between Britain's financial super-regulator, the Financial Services Authority, the Bank of England and the Treasury. If any policymakers are to blame for the catastrophe at Société Générale, France's second biggest-bank (see article), they are French.

Politicians will always be keener on grand talk about reforming global finance than on facing problems at home. But if the lessons of a decade ago are any guide, it is domestic reforms that will yield the greatest returns.

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America's election

Once again, the greatest show on earth

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From The Economist print edition

Especially if you happen to be a Republican

AP

THE first act of the extended drama that is this year's American election ended this week in Florida, with the last of the early primaries that have taken the presidential hopefuls from the plains of Iowa to the mountains of New Hampshire and from the Nevada desert to South Carolina's coast. These early states have served their purpose well, narrowing a field of almost 20 down to four serious contenders (two Democrats and two Republicans) and proving much about the character, intellect and staying power of the principal players.

Act II starts and finishes almost immediately. On February 5th more than 20 states will vote, and by the end of that day half the delegates to the late-summer conventions, where the nominees will be anointed, will have been chosen. Whether there is a third act—a long tense hunt for delegates from the remaining states, which could take months longer—will depend on how finely balanced a result “Super Tuesday” delivers. It is even possible that one or other nomination will be decided only at the conventions: a nail-biting Act IV. And only then, of course, will the actual election to replace George Bush in the White House begin.

The process of choosing the next leader of the world's most powerful country, in other words, is still at an early stage. But it has already delivered big surprises. The biggest has come on the Republican side. A few months ago the party looked set to tear itself apart, with no fewer than five front-runners, each representing a different strand of conservatism, vying for supremacy. But a brutal triage has taken place. Fred Thompson was speedily eliminated for being only a poor man's Ronald Reagan; Mike Huckabee stunned in Iowa, but has proved unable to spread his appeal beyond evangelical Christians and looks doomed too. And on January 29th Rudy Giuliani, an early favourite, was forced from the stage in Florida. He had staked everything on a big win in the Sunshine State, leaving the other early primaries to his rivals. In the end, he came a dismal third and quit the race a day later.

The Republican race thus boils down to a straight fight between a competent chameleon and a cantankerous crusader (see article). Mitt Romney is a smooth businessman-cum-politician. Unlike everybody else still in the race, he has actually run a lot of things—a state, a huge business and an Olympic games—and done it pretty well. If only he believed in something, he would be a powerful force; sadly, his political colours appear to change depending on his audience. By contrast, Senator John McCain lacks Mr Romney's managerial vim (and his youth); but he has never been afraid to speak his mind, bravely defying his party's line on immigration, torture, global warming and campaign finance—and he has considerable support among independent voters. This newspaper backed Mr McCain in the 2000 primaries; the case for him being the Republican candidate this time seems even stronger.

Nasty, brutish and long

The Democrats have been just as surprising. A race that once looked like a walkover for Hillary Clinton has proved to be anything but. Barack Obama has emerged as a charismatic political presence, running a tightly organised, exciting campaign. Mrs Clinton has fought an oddly poor one, hindered in unexpected measure by her husband. Far from adding star power, Bill Clinton has proved a source of rancour and controversy. His ranting attacks on Mr Obama, and his clumsy attempts to pigeonhole his wife's rival as a black candidate with limited appeal to whites, triggered this week's endorsement of Mr Obama by Senator Edward Kennedy and by Caroline Kennedy, the daughter of JFK, who says that Mr Obama reminds her of her father. Independent voters may now flinch about the nastiness of a Clinton White House.

It is still probably—just—Mrs Clinton's race to lose. She managed to “win” a non-competitive race in Florida this week; and some of the doubts her attack dogs have raised about Mr Obama's lack of experience and the young senator's preference for vague uplift over crisp detail are certainly to the point. John Edwards's withdrawal from the race on January 30th will probably benefit her too. But Mrs Clinton goes into Super Tuesday having so far failed to convince plenty of broadly sympathetic people, including this newspaper, that she should be the automatic Democratic choice.

And her struggle is indeed likely to continue. Unlike the Republicans, the Democrats award their primary delegates on a proportional basis. So it is likely that for Mr Obama and Mrs Clinton at least, there will be an Act III, and possibly more, after Super Tuesday. The play is far from over. But the Republicans should be surprisingly content with the show so far.

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The Gaza Strip

Hamas won't go away

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Palestine's Islamists can't be defeated or ignored, but embracing them won't be easy

EPA

AT FIRST it looked possible that the break-out by tens of thousands of Palestinians bottled up in the Gaza Strip would be a joyful but brief blip. Once Egypt had resealed the border, the inmates' misery would resume, along with the bloody stalemate that has prevailed since the Islamists of Hamas took control last June. But that has not happened. Instead, the balance of power has shifted—in Hamas's favour (see article).

Israel's policy of punishing the Gazans in the hope that they would get rid of Hamas, which they had elected two years ago, was not only morally wrong, but has also failed. Hamas has probably recouped its strength and increased its popularity. Moreover, it seems unlikely that Israel will be able to foist responsibility for Gaza onto Egypt, in the hope that the Palestinians' fledgling two-part state would remain politically as well as territorially divided, with the bigger West Bank bit amiably engaged in the peace talks with Israel that were relaunched two months ago at Annapolis. In sum, Israel has failed to squeeze Hamas out of the equation—and will almost certainly, in the end, somehow have to accommodate it.

Easily said but very hard to do. On paper, Hamas's policy is both grotesque and delusional: the destruction of the Jewish state. But Hamas is also pragmatic. In the past few years, it has agreed to take part in a Palestinian political system that assumes co-operation with Israel. It joined a (short-lived) coalition government with its secular rivals, Fatah, the party of the late Yasser Arafat which has long dominated the Palestine Liberation Organisation and which recognised Israel 20 years ago. Several of Hamas's leaders have hinted that if a majority of Palestinians agreed to a two-state solution in a referendum, the Islamists would abide by the verdict. They still, however, insist, as Fatah does on paper, that all Palestinians have a right of return to their old homes in what is now Israel and that Israel's borders must be those that existed before the war of 1967. The hope among the majority of Palestinians and Israelis who want two states living in peace side by side is that, over time, Hamas will disavow its determination to destroy the Jewish state and enter talks on a lasting peace.

Since last June Hamas has been at war not just with Israel but with Fatah too. The representatives of both Fatah and the Palestinian president, Mahmoud Abbas, a Fatah man, have been chased out of Gaza or oppressed within the strip. Hamas has treated its Palestinian opponents brutally, as has Fatah in its own West Bank domain. Hamas's relations with Egypt are barely better: the Egyptian government on its own patch hates and fears the Muslim Brotherhood, of which Hamas is an offshoot. Israel's agreement to start negotiating a peace treaty with Fatah, underwritten by the American administration at Annapolis, seemed to rest on an assumption that both sides would keep the incorrigibles of Hamas—and Gaza—out of any deal. That now seems much harder to achieve.

Try to domesticate it

But how to lure Hamas into peaceful politics? The first need is a ceasefire, which requires Hamas and other fighters to stop firing the rockets that rain down on Israelis living near Gaza (though it is worth noting that these rarely kill people—some 13 in seven years—whereas Israeli attacks have killed hundreds of Palestinian civilians as well as fighters in Gaza over the same period: at least 70, including 30-odd civilians, this January alone). The second is for Israel, Egypt and Fatah to accept Hamas as a partner in managing Gaza's borders. The third is for a wider prisoner exchange, to include an Israeli corporal held by Hamas for more than a year, along with the 40-plus Hamas members of parliament behind bars in the West Bank and some thousands of the 12,000-odd Palestinian militants in Israel's prisons. The fourth, and hardest to achieve, would be to get Hamas back into a Palestinian unity government under a clarified version of the deal made in Mecca a year ago.

The key requirement is that Hamas be judged by its deeds rather than its declaratory words. Some within Hamas think only of Israel's destruction; for more, it remains their long-term ambition. But opinion polls say that most Palestinians, including a good half of the 44% who voted for Hamas at the last election, accept a two-state solution. The way to bring Hamas on board is not to isolate it, which may make it stronger and more intransigent, but to entice it with measures of at least temporary respite that have a better chance, over time, of making it embrace the reality of a predominantly Jewish state next to a Palestinian one.

Hamas cannot expect a free pass to respectability. Its leaders cannot prevaricate over diplomacy for ever; ditching their anti-Semitic charter would help too. But insisting that Hamas recognises Israel outright before it can be deemed worthy of any kind of co-operation is pointless. It simply won't happen. Leaving an angry group of Islamists outside any deal that Israel makes with other Palestinians is bound, in the end, to undermine Israel's own long-term security. That is at least one lesson to come out of the Gaza fiasco.

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Italy's government

Unsteady as she goes

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AP

Italy has enough problems already: does it really need Silvio Berlusconi once again?

ITALY is notorious for its perpetually changing governments. Between 1981 and 2007, it had 16 prime ministers, including some repeats, compared with Britain's four. Yet lately Italian politics had acquired a patina of stability. Under pressure from voters, its fissiparous parties had coalesced into recognisable blocks of right and left. The centre-right government of Silvio Berlusconi (pictured right) served a full five-year term; when the media tycoon was defeated at the polls by the centre-left in April 2006, the hope was that Romano Prodi (on the left) would also see out his term. It was not to be.

The upheaval triggered two weeks ago, when a tiny centrist party quit Mr Prodi's coalition, unseated the prime minister when he lost a vote of confidence in the Senate. After consultations, the Italian president this week has asked Franco Marini, speaker of the Senate, to form a short-term interim government. But Mr Berlusconi, hungry for power, is baying for an election as soon as possible. His commanding lead in the opinion polls suggests he would win, and return to Palazzo Chigi just 20 months after he left it (see article).

Everybody agrees that the last thing that Italy needs is another succession of fractious, short-lived governments. It could just about get away with them when growth was strong, and vibrant private enterprise, especially in the north, more than made up for a shoddy (and often corrupt) public sector and the sclerotic *Mezzogiorno*. More recently, though, Italy's economic prospects have worsened. It is the slowest-growing big economy in Europe; the south is barely moving forward at all. Spain has just overtaken Italy by the measure of GDP per head, say the statisticians. Italy's competitive sparkle has dimmed. And the OECD, a think-tank, finds that it has the most heavily regulated economy in the rich world.

The country, in short, desperately needs both stable government and painful economic reform. The question is how to get these things. In 2001 voters overwhelmingly backed Mr Berlusconi (rejecting this paper's view that his chequered business history made him unfit to lead Italy). But he squandered his opportunity, using up political capital to protect his media interests and fend off judicial cases against him, and dithering over economic reform. After a disastrous term, he left behind his own “poison pill”: a law to change Italy's electoral system back to one based largely on proportional representation. By the time Mr Prodi lost his confidence vote, no fewer than 39 political parties were represented in parliament.

The poison has thus done for Mr Prodi. Ironically, it is also hurting Mr Berlusconi, who finds it increasingly hard to control small parties in his coalition. Both sides agree that electoral reform is needed to strengthen big parties at the expense of little ones. Yet the smalls will resist, making it hard for any interim government to get a new electoral law passed. So the odds are that Italy is heading for a fresh election under the existing system. Mr Berlusconi seems likely to win—although Mr Prodi's successor as

centre-left leader, Walter Veltroni, a popular mayor of Rome, may whittle down his lead.

In search of liberalismo

New election rules are needed if stable government is to return. But Italy's deeper problem is that so few of its political leaders are genuinely liberalising reformers. Mr Prodi's government cut public borrowing and improved tax collection, but proved too timid to take on the vested interests that always resist change. It left the public sector mostly unreformed. As the renewed Naples rubbish crisis confirms, it failed utterly to sort out the *Mezzogiorno*. A younger and more energetic Mr Veltroni might be bolder, but his reform credentials are untested and his grip on any centre-left coalition may prove no firmer than Mr Prodi's.

There is not a glimmer of hope that a returning Mr Berlusconi would prove a better bet than Mr Prodi. Judging by his record, he might be worse, starting by undoing the Prodi government's successful tax-collecting reforms. Mr Berlusconi has made clear that his first priority would again be to protect his own interests, by making it harder to use evidence from wiretapping in court cases. However successful he has been in business, he remains unfit for the job he covets. Poor Italy.

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On space, “uneducated” Americans, emissions, energy prices, Jérôme Kerviel, Shakespeare, politics

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Space is the place

SIR – Your briefing on the militarisation of space looked at defence issues (“Disharmony in the spheres”, January 19th). The military rationale for the space age took root when German V2 rockets targeted London in 1944. But in the past two decades space has become an overwhelmingly commercial place, raising all sorts of safety, not security, issues. The debate on space security is centred on limiting national military activities in space. The debate on space safety is focused on international co-operation to preserve the space environment, preventing unfair commercial competition because of substandard safety practices and ensuring acceptable risk.

Around 200 spacecraft have been abandoned in orbit. Populations around the world are at risk from launch and re-entry operations as well as space debris. The present codes of conduct are insufficient: it is time to establish an international regulatory framework for space similar to the one that exists for civil aviation.

Tommaso Sgobba
President
International Association for the Advancement of Space Safety
Katwijk, the Netherlands

SIR – Monitoring our planet's weather, oceans, and land masses is paramount if we are to understand, forecast and possibly manage Earth's ecological goods and services in the face of global warming. To toy with war-gaming in such critical international space is both infantile and nihilistic.

America's posture on the planetary commons runs counter to both the Global Earth Observation System of Systems plan and the European Space Agency's push to marshal science-based satellite constellations for a concerted focus on climate change. Moreover, a de-militarised space is imperative to safeguard the advances in communications technology that is important for the rapid development of emerging markets and which help sustain the economies of rich countries. For Earth's sake, let's keep the weapons holstered on the ground.

Timothy Foresman
President
International Centre for Remote Sensing Education
Baltimore

Enlightened instruction

SIR – Would you be so kind as to tell me to whom you are referring when you mention the “uneducated” in your articles on the United States? You recently stated that the “uneducated” are voting for Hillary Clinton (“Up in the air”, January 12th). Given that elementary and primary education is mandatory along with secondary, I find it hard to believe that the “uneducated” exist in such numbers to be statistically relevant. I earnestly hope you are not implying that the above mentioned majority of Americans who are secondary prepared are uneducated, for to do so would be evidence of boorishness common among the educated classes.

William Whelehan
Chicago

Running low

SIR – America will not adopt constraints on its emissions when a new president is inaugurated ("Get the price right", January 19th). The momentum in Washington is simply not there. Last year's energy legislation was passed by a Democratic Congress, which failed to eke out a bill with any teeth: no electricity standards mandating utilities to use renewable energy; no cut to the level of greenhouse-gas emissions; no carbon tax. All that Congress could muster were corn-ethanol subsidies and a weak fuel-efficiency standard—35 miles per gallon by 2020—which falls short of current standards in Europe, Japan and China.

Furthermore, corn will not offer energy independence. If all American corn crops were given over to producing ethanol it would replace only 12% of gasoline demand. Nor will corn save the planet. One gallon of corn ethanol requires four-fifths of a gallon of fossil fuels and 1,700 gallons of water to produce.

Michael Shank
Arlington, Virginia

Britain's energy market

SIR – I had mixed feelings about your article on Britain's energy market ("Higher still and higher", January 12th). I agree with your observation about the stultifying effect of long-term supply contracts in the rest of the European Union. Ofgem, Britain's regulator, has put a lot of time into backing efforts in Brussels to do something about this and we are seeing some success.

However, I was disappointed by your implication that the market is not delivering. In Britain, the energy supplier that has consistently offered the lowest prices and best service has doubled its number of customers to 8m over the past three years. In the competition to win residential customers, suppliers have offered fixed and capped price-deals that offer insulation from the full impact of price increases and they have attracted 5m customers.

Households are switching suppliers in record numbers and there are savings topping £100 a year still on the table for some. Switching is simple and profitable, so downplaying its benefits does not do the consumer any favours.

Alistair Buchanan
Chief executive
Office of Gas and Electricity Markets (Ofgem)
London

Gains and losses

SIR – Jérôme Kerviel is in trouble because without authorisation he used Société Générale's money to bet on European markets, losing his employer some $7 billion ("Socked, not gently", January 26th). But imagine the embarrassment had Mr Kerviel made a profit of $7 billion, or possibly double that, if the markets had moved differently? The bank would have had to discipline, dismiss and pursue for fraud an individual responsible for a huge increase in net profits and a concomitant leap up the banking league table. And what to do, in those circumstances, about executive bonuses?

Michael Acott
Johannesburg

Character references

SIR – With all those references to Shakespeare in just one column it seems that Bagehot has had quite the literary education (January 12th). Can we have a re-run, with Gordon Brown as the arch-manipulator, Prospero? He'd probably like that. I also want to know whom Bagehot would cast as Miranda, Ariel and especially Caliban. And will Charlemagne and Lexington be taking up the challenge? Nicolas Sarkozy by way of Molière's comedies would be good. And how about the Hillary and Bill show with something tense from Tennessee Williams?

Chris Gent

Ringwood, Hampshire

The tail-end of a presidency

SIR – Your review of a book on happiness and where to find it ("It's in Iceland", January 19th) mentioned that Republicans are happier than Democrats. This can probably be explained in the same way that dogs are happier than their owners: they can't grasp the concept of cleaning up the mess they leave behind.

John Smith-Hill
Portland, Oregon

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Iran's nuclear programme

As the enrichment machines spin on

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From The Economist print edition

AP

How America's own intelligence services have brought international policy on Iran to the edge of collapse

IF YOU are locked eyeball to eyeball with an adversary as wily as Iran, it does not make much sense to do something that emboldens your opponent and sows defeatism among your friends. But that, it is now clear, is precisely what America's spies achieved when they said in December that, contrary to their own previous assessments, Iran stopped its secret nuclear-weapons programme in 2003.

Iran's jubilant president, Mahmoud Ahmadinejad, immediately called the American National Intelligence Estimate (NIE) a “great victory” for his country. Subsequent events suggest that he was right. Western diplomats are despondent and international efforts to get Iran to stop enriching uranium and working on plutonium have been thrown into confusion.

Already difficult diplomacy has got harder. The steadily pumped up pressure that led to two United Nations sanctions-bearing resolutions, in December 2006 and March 2007, calling on Iran to suspend the offending work, suddenly deflated. Unprecedented, if grudging, co-operation from Russia and China at the UN Security Council had been about to lead to a third, tougher resolution. But the NIE produced an abrupt softening in the positions of the Russians and Chinese. The draft America, Britain, France and Germany had to settle for when all six foreign ministers met last week in Berlin is a feebler one, designed to shore up their fraying unity rather than set Iran quaking in its boots.

In his final state-of-the-union speech this week, George Bush called on Iran to suspend uranium enrichment “so negotiations can begin”—a far cry from the fiery “axis of evil” speech he unleashed against Iran, Iraq and North Korea six years ago. This will add to Iran's belief that the NIE has made it harder for Mr Bush to brandish the military option that he has insisted remains “on the table”. The threat of force had put some steel into the six-power diplomacy. Presuming Mr Bush's guns to be now truly spiked, his critics at home are cheering along with the Iranians.

Israel, which had been counting on America to put the frighteners on Mr Ahmadinejad and his ilk, is left mulling its own dwindling options in a fissile neighbourhood. Yuval Steinitz, a former chairman of its parliament's foreign-affairs and defence committee, calls the NIE “the most bizarre and flawed intelligence report I've ever read”. For Holocaust remembrance day this week, just before Mr Bush's speech, Israel's prime minister, Ehud Olmert, sent a not very coded message to Iran and America, promising not to be complacent about “voices calling for the obliteration of Israel”, and recalling the

allies' failure to destroy the Nazi death camps during the second world war.

The small print

If America's spies have concluded that Iran is out of the nuclear-weapons business, why the gloom and doom? Iran, after all, has always insisted that its nuclear programme is peaceful. Indeed, Ayatollah Ali Khamenei, its supreme leader (shown above in conversation with Mohamed ElBaradei, the director-general of the International Atomic Energy Agency or IAEA), says that building or using nuclear weapons is against Islamic law.

If only judging Iran's nuclear intentions were that simple. Contrary to the impression left by the NIE's published conclusions (the bulk of its analysis remains classified), a nuclear-weapons programme has three main elements: the design work and engineering to produce a workable weapon; the production of sufficient quantities of fissile material—very highly enriched uranium or plutonium—for its explosive core; and work on missiles or some other means of delivery. Although the NIE talks of a halt to Iran's “weapons programme”, its conclusions relate only to the design and engineering effort and past hidden uranium experiments . But the weaponisation work the NIE thinks was halted is easy to restart and easy to hide.

Hence the fury of even some of America' s closest European allies at the NIE's selective and then mangled message. Iran boasts of its skill in building ever farther-flying (and potentially nuclear-capable) missiles. And by far the hardest skill in bomb-making is the one Iran now pursues in plain sight, in defiance of those UN resolutions: producing uranium or plutonium. Israel claims to have evidence that the warhead work continues too—but this fails to pass muster in Washington under rules designed to avoid another debacle like that over the missing weapons of mass destruction in Iraq. Britain's intelligence analysts, studying the same information as America's, have not yet decided whether the American conclusion is right.

The damage done by what the NIE did and did not say cannot easily be undone. To some, the report changes little; if anything Iran has an even harder case to answer, because the weapons programme the NIE says Iran was working on until 2003 is a breach of Iran's anti-nuclear promises under the Nuclear Non-Proliferation Treaty. Meanwhile, it is Iran's open nuclear work that is the target of UN sanctions. Yet it might be truer to say that the NIE changes both nothing and everything—and in all the wrong ways.

Unchanged is the suspicion hanging over Iran's nuclear intentions. Mr Ahmadinejad has never been able to explain convincingly why Iran is the first country to have built a uranium-enrichment plant without having a single civilian nuclear-power reactor that could burn its output (the ones Russia has all but completed at Bushehr will operate only on Russian-made fuel). He says he wants to build lots more power plants. But learning to enrich uranium—a hugely costly venture—still makes questionable economic sense for Iran, since it lacks sufficient natural uranium to keep them going and would have to import the stuff. And although the 3,000 fast-spinning centrifuge machines it has up and running at Natanz are enriching only to the low levels used in civilian reactors, running the material through a few more times, or reconfiguring the centrifuge cascades, could soon produce uranium of weapons grade.

Some other countries—Iran likes to point to Japan—have civilian uranium and plutonium-making technology and no one creates a fuss. What they don't have, however, is Iran's murky nuclear past. It took a tip-off from an Iranian opposition group to alert IAEA inspectors to the construction of a secret uranium-enrichment plant at Natanz and a heavy-water reactor that produces plutonium at Arak. Since 2003, the IAEA has found multiple other breaches of Iran's nuclear safeguards.

Caught radioactive-handed, Iran could have chosen to come clean. Instead it stonewalled, refusing to answer questions about some of its alleged activities, including those that the NIE is confident were clear evidence of weapons intent. Under intense scrutiny, and fearful that it could be next on Mr Bush's target list after Afghanistan and Iraq, in 2003 Iran called a temporary halt at Natanz and put out feelers to America for talks. But America ignored those approaches, and since 2006 Iran has resumed uranium enrichment. If its intentions were peaceful as claimed, this behaviour is “incomprehensible”, says Pierre Goldschmidt, a former deputy head of the IAEA.

Mr ElBaradei, the head of the IAEA, seems less certain of this. Fortified by a Nobel peace prize, he has been working assiduously to prevent a military confrontation between Iran and America. This outspoken effort to confound what he has called the “crazies” in Washington has angered Western diplomats. They complain that he has tripped up diplomacy (he suggested that Iran be allowed to keep some enrichment work going, even though the Security Council and the IAEA itself had demanded a halt) and cares more about getting Iran “out of the doghouse” than doing his job by holding it fully to account.

Iran itself certainly appears to see the IAEA as the way out of its remaining difficulties rather than a thorn in its side. On a charm offensive at the World Economic Forum in Davos on January 26th, its foreign minister, Manouchehr Mottaki, told world leaders that it made no sense for the Security Council to consider new sanctions at a time when American spies had confirmed that Iran was not building a bomb and Iran was on the verge of completing the “work plan” it signed with the IAEA last August.

Under that plan Iran promised to answer the agency's outstanding questions by last December. Now it says it will divulge all by mid-February. The Iranians have already come up with some more answers about past illicit plutonium experiments. They have shown that some of the unexplained traces of enriched uranium came from contaminated imports supplied by the black-market operation run by the now disgraced head of one of Pakistan's nuclear laboratories, Abdul Qadeer Khan. (Iran says it bought kit from Mr Khan because nobody else would supply needed “civil” equipment.) And they have told inspectors more about the faster-spinning centrifuge machines supplied by the Khan network that Mr Ahmadinejad had already boasted were undergoing tests.

But inspectors have more questions. They are still probing, among other things, alleged activities that the NIE report is confident show clear weapons intent: design work on a potential warhead and a test shaft, and high-explosive testing to develop triggers for nuclear bombs. Come mid-February, Mr ElBaradei and his inspectors may have got no more than another Persian raspberry on some of this. They will report to the IAEA's 35-nation board in March.

In any case, accounting for Iran's past does not lessen the danger of its accumulation of enriched uranium for the future. A stock of low-enriched uranium could give it a break-out capacity to build a weapon in a matter of a few months, depending on how far Iran had got with its earlier weaponisation work. Thanks to Natanz, Iran could have enough highly-enriched uranium for a bomb by 2009, says the NIE report, though more probably by 2010-15. So being more truthful about the past would not get Iran entirely off the hook.

Conditional offers

But might it open a path to negotiations with America? In a change of policy last year, Condoleezza Rice, America's secretary of state, said she would be willing to talk directly to Iran about all their differences (they are already talking on and off about Iraq) once it had suspended uranium enrichment. The Americans and Europeans, supported by Russia and China, promised that a halt to enrichment would win Iran improved political and economic ties, talks on regional security and help with advanced, but less suspect, nuclear technology. Russia even offered to enrich uranium on Iran's behalf, to get talks going. Many of America's presidential candidates have added to the mood music by picking up ideas for a “grand bargain” with Iran across a range of issues.

Yet it is far from clear that Iran is interested in a deal with America, especially while Mr Bush remains president. Ayatollah Khamenei recently allowed that the bar on talks with America might not last for

ever. But, for the moment, “Not having relations with America is one of our main policies”, he said. In the meantime, Iran continues to deride the actions of the Security Council as “illegal”. Its atomic energy chief says he expects a clean bill of health from the IAEA in March, and at that point “Iran's nuclear case will be closed.”

Mr Khamenei and Mr Ahmadinejad have long counted on the hesitation of sanctions-shy Russia and China, and the support of friends in the non-aligned movement, to give Iran sufficient cover to enrich on regardless. America, Mr Khamenei reportedly told Mr ElBaradei, “will not be able to bring the Iranian nation to its knees by raising this or other issues”. Mr Bush, to be fair, has stressed that he has no intention of depriving Iran of the properly peaceful benefits of nuclear power—to the point of supporting Russia over the start of its fuel supplies for Bushehr.

One reason for Iran's defiance is that Mr Bush is looking increasingly weak. On his tour of the Middle East last month, the president talked up the Iranian threat and America's determination to deal with it diplomatically. But his public efforts to rally Arab governments to confront Iran fell flat. Damagingly, the NIE is being read in the Gulf as a signal that Mr Bush is no longer serious about facing down Iran.

An uneasy home front

As Iran approaches parliamentary elections in March, the regime's bigger headaches may be on the home front. Officialdom can brush off protests, such as a petition from several hundred activists, journalists and academics calling for a uranium freeze, and a letter from more than 500 women criticising some in the regime for playing into America's hands with their defiance and risking war.

Mr Ahmadinejad may claim the NIE as a victory. But before its publication and since, he has been under attack from fellow conservatives for the parlous state of Iran's economy. Even Mr Khamenei has chipped in with mild criticism, and recently overrode the president to order increased spending on gas supplies for Iran's remoter regions that have been suffering shortages in a bitterly cold winter.

Oil may be hovering around $90-100 a barrel, but Mr Ahmadinejad has squandered much of the windfall on wasteful subsidies. In a country where two-thirds are under 30, unemployment is rising fast. Inflation now runs at an official 19%, according to central-bank figures, compared with 12% in 2006, and may well be higher.

EPA

Ahmadinejad is less than loved

Iran's international isolation adds to the distress. The UN'S sanctions have been closely targeted on companies and individuals involved in nuclear and missile work, but American-inspired financial sanctions bite harder. Most European and Japanese banks, with too much to lose to fall foul of America's sanctions laws, have backed away from business in or with Iran, especially in dollars, but in other currencies too. In recent months some banks in the United Arab Emirates and Bahrain—where Iran has transferred a lot of its business—have reportedly followed suit. Trade continues, but governments have pruned export credits. Although India has hitherto been one of Iran's main suppliers of refined gasoline and diesel, the difficulty in getting letters of credit recently forced Iran to find supplies through Singapore. China has picked up contracts to exploit Iran's oil and gas fields where European and Japanese companies have hesitated, but Iran needs Western technology to prevent energy production slipping further.

Disgruntlement at the cost of economic isolation grows. The hope behind Western strategy has been that ordinary Iranians who take pride in their country's nuclear prowess will come to question the price they are being asked to pay for persisting with expensive technologies that other nuclear-powered countries have done without. All the more so, since their government denies any weapons intent.

The trouble is that Mr Ahmadinejad's conservative critics within the regime and in parliament tend to be hardliners over Iran's nuclear “rights”. The president's men may fare badly in the March elections. Mr Ahmadinejad could be turfed out of office in presidential elections next year. But it is the supreme leader who makes nuclear policy, and this may not change. Having persisted with enrichment in defiance of sanctions, why should Iran alter course just when the combined efforts of America's spies and the IAEA look likely to bring about a reduction of pressure and an escape from isolation? Hedging their bets,

American allies such as Egypt and the Gulf Arabs have lately been showing a friendlier face to Iran.

In theory, one possibility Iran still needs to worry about is a pre-emptive attack by Israel. Israel has no doubt that Iran is bent on getting the capability for a bomb, something that Mr Olmert says Israel will “not tolerate”. Content to pipe down while pressure on Iran was building, Israel has nonetheless deliberately narrowed the ambiguity over its own nuclear arsenal, once a taboo subject in public. A missile Israel recently tested was able to carry an “unconventional” payload, said Israel Radio. Israel has also just launched a sophisticated spy satellite, making no secret of the fact that its target is Iran.

What Israel may or may not do

Israel says that even if America's spies are right (and it does not think they are) about Iran having given up its efforts to build a nuclear warhead in 2003, Iran's enrichment activities at Natanz are a clear and present danger. But whether Israel would dare to go it alone in an attack on Iran is uncertain. Doing so without American approval or help would be fraught with danger, and the NIE has made it very much harder for Israel to justify such an attack in the court of public opinion.

What if neither sanctions nor force stops the centrifuges? Once Iran produces sufficient nuclear material, it could eventually get to not much more than a screwdriver's turn from a bomb—as Pakistan showed before it decided to echo India's nuclear tests in 1998. In 1981 Israeli airstrikes crippled an uncompleted Iraqi nuclear reactor to nip Saddam Hussein's nuclear ambitions in the bud (Iran, just as concerned at Iraq's intentions, had earlier struck the reactor with missiles). The attack may have delayed Iraq's nuclear programme, but also drove it underground. After the first Gulf war ten years later, astonished weapons inspectors found Iraq had been working secretly on three different ways to a bomb.

Paradoxically, America's NIE raises the alarm about just this sort of eventuality. The 16 intelligence services that signed the report concluded that Iran has the scientific and industrial capacity to build a nuclear weapon if it chooses, and that “at a minimum” it is keeping the option to do so open. But, whether by accident or design, the report was written in a way that allowed the finding about weaponisation to suck attention away from the uranium work, which diplomats had spent years trying to stop by means of painstaking diplomacy. Iran may not yet be home free, but the international campaign to stop it getting the bomb that many countries think it wants is on the point of failure.

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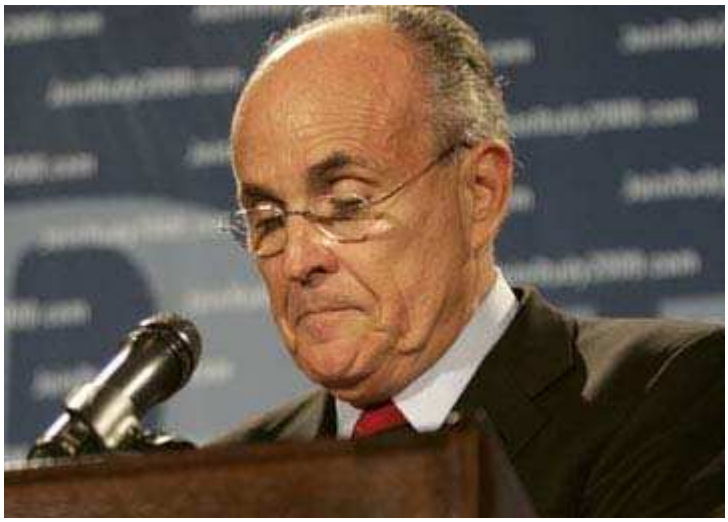
The Republicans

Goodbye, Rudy Tuesday

Jan 31st 2008 | TAMPA
From The Economist print edition

EPA



After knocking Rudy Giuliani out of the race, John McCain is the clear favourite to win the Republican nomination. He may even have a chance at the presidency

HIS stump speech does not change much. Last year John McCain said he wanted to win the war in Iraq and cut waste in Washington. This year he says exactly the same thing, often in exactly the same words. Listen to him ten times and you'll probably hear him promise ten times to pursue Osama bin Laden to the gates of hell. Voters seem to like this consistency, though they have shown little of it themselves.

At one point last year, Mr McCain's campaign for the Republican nomination looked lost; he was almost out of money and he had fired most of his senior campaign staff. Polls suggested that Rudy Giuliani, the mayor of New York on September 11th 2001, would crush him. Now Mr McCain is the clear front-runner and Mr Giuliani is out of the race.

On Tuesday, January 29th Mr McCain won Florida, the biggest primary so far, beating Mitt Romney by 36% to 31%. He now has three metaphorical gold medals to add to his chestful of real military gongs. Mr Romney has also won three races, but two (Wyoming and Nevada) were in states that his rivals barely contested.

Mr McCain now has roughly 95 delegates to Mr Romney's 67. He needs 1,191, half the total, to clinch the nomination. Nearly that many are up for grabs on February 5th (“Super Tuesday”), when 21 states hold Republican primaries or caucuses. Quite a few of those contests are “winner takes all”: and Mr McCain is on a roll. Undecided voters looking for a winner to back will have noticed that he keeps popping up to make victory speeches.

Defying one of the oldest political traditions, the Arizona senator is winning by gruffly refusing to tell people what they want to hear. Florida's popular governor, Charlie Crist, tried to persuade the candidates to back a federal subsidy for home insurance for people who live in hurricane-prone places like Florida. This is a terrible idea. By making it cheaper to build in risky areas, it would ensure that more houses are destroyed in future hurricanes. And why should working stiffs in the heartland subsidise others' beachfront dreams?

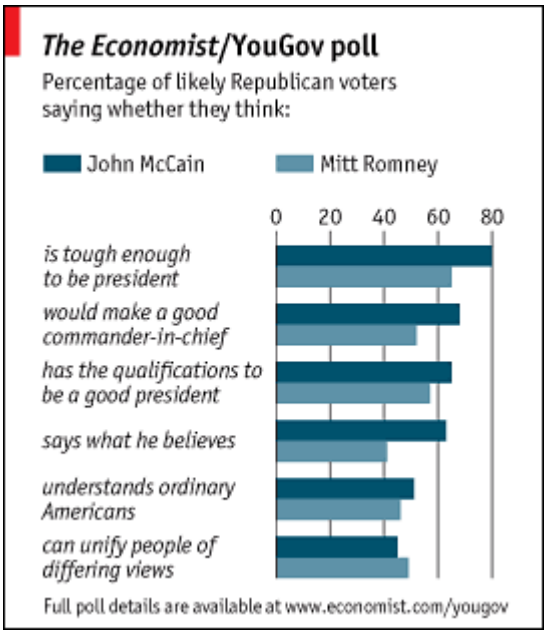
Unlike some of his rivals (Mr Giuliani embraced the plan; Mr Romney fudged), Mr McCain told Mr Crist to get stuffed. Mr Crist endorsed him anyway. It is not that Mr McCain never panders; but he does it less than anyone else who is running.

The week's biggest casualty was Mr Giuliani. The former mayor campaigned longer and harder in Florida than anyone else. He did miserably in the early primaries but promised that Florida would be his firewall. Instead, it was his pyre. Despite his celebrity and the large number of New Yorkers who have retired to Florida, he came third. His messy private life and liberal views on abortion did not help. Nor did his temper—he once, unprovoked, berated a harmless ferret-owner, accusing him of being “deranged” simply because he owned ferrets. Perhaps his biggest problem, though, was the self-fulfilling perception that he could not win. A day after the Florida vote, he dropped out and added his endorsement to Mr McCain's bursting trophy cabinet.

The Republican race is now down to two. Voters regard Mr McCain, who advocated the surge in Iraq before it was fashionable, as the more plausible commander-in-chief. But Mr Romney, a venture capitalist before he was governor of Massachusetts, argues that America needs a president who understands the economy “right down to his DNA”. He reiterates that economics is not Mr McCain's strong suit—a fact Mr McCain freely admits when the cameras are not rolling.

Exit polls in Florida gave Mr Romney the edge among voters who think the economy is in reasonable shape. Mark Mazer, whose teeth-whitening firm is doing well, said he thought Mr Romney would be best for small businesses. He added that he would have plenty of time to vote, since on voting day he was trying to hawk his services at a trade fair for retirees, few of whom, he discovered, had teeth.

Unfortunately for Mr Romney, Mr McCain beat him among the swelling number of voters who think the economy is in trouble. Homeowners struggling with their mortgages perhaps doubt that a zillionaire understands their plight. “Annoy the rich. Vote McCain,” said a placard outside a Romney speech near Orlando.



This week was the first time Mr McCain won a poll open only to registered Republicans. In New Hampshire and South Carolina, he needed votes from independents to beat Mr Romney. Now he has shown that, as his 95-year-old mother put it, the Republican party will “hold its nose” and vote for a man who has often defied his party. Mr McCain won handsomely among Hispanic voters, thanks no doubt to his liberal record on immigration. He also won among moderates and old people. It is a powerful coalition—and one that spells trouble for Hillary Clinton, whose support comes from the same quarters.

Mr McCain said his margin of victory was not big enough for him to brag about, nor for Mr Romney to despair. There is no sign of that. Mr Romney's concession speech conceded nothing. But he has a mountain to climb without a ski-lift. He beat Mr McCain among self-described conservatives, but on Super Tuesday he must fight for this group with Mike Huckabee, a former preacher and governor of Arkansas who is strong in the South.

Mr Huckabee has won few converts outside his natural constituency of born-again Christians, but he remains soaringly eloquent. In a draughty hangar on the night before the Florida primary, he quoted the Bible and an earthy comic named Larry the Cable Guy. He thanked supporters both powerless (a janitor with a wheelchair-bound wife) and omnipotent (God). And he promised to fight on. That can only hurt Mr Romney.

The race is now Mr McCain's to lose. The hard right may hate him for his heresies on taxes, immigration and campaign-finance reform, but there is at least one person they fear more. When a rather desperate Mr Giuliani vowed this week to send someone to Mars, a voice in the crowd suggested Mrs Clinton.

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The Democrats

Where will the wind blow?

Jan 31st 2008 | COLUMBIA AND WASHINGTON, DC
From The Economist print edition

Barack Obama has the momentum. But he faces big obstacles

Reuters

Mrs Clinton not campaigning in Florida

Get article background

"WE LEAVE this great state with a new wind at our back", Barack Obama told a huge crowd of supporters at the Columbia Convention Centre on January 26th. A new wind indeed. Mr Obama beat Hillary Clinton in South Carolina by a 28-point margin (55% to 27%). He beat John Edwards, a native of the state and the winner of the 2004 Democratic primary, by 37 points. Mrs Clinton, who had poured millions of dollars into the state, had already high-tailed it to Tennessee. Mr Edwards dropped out of the race four days later.

On January 28th Mr Obama caught another useful gust. Edward Kennedy gave Mr Obama one of the most valuable treasures in Democratic politics—John Kennedy's mantle. Speaking at American University in Washington, DC, where JFK delivered one of his great speeches, and accompanied by Caroline Kennedy, JFK's daughter, as well as his own son, Patrick Kennedy, he repeatedly described Mr Obama as the JFK of his generation.

Mr Kennedy's support is more than a passing of the flame. He voiced widespread worries in Democratic circles about the Clintons' "politics of misrepresentation and distortion". He also countered the idea that Mr Obama is light on substance by praising him as a first-rate senator who will be "ready to be president on day one" (the claim Mrs Clinton makes of herself). Mr Kennedy's support will be particularly important among groups where Mr Obama has been weak—trade-unionists, older voters and, in particular, Hispanics—and he plans to spend the days before Super Tuesday campaigning intensively in Arizona, New Mexico and California.

The famous Clinton machine has also made a surprising number of errors. The biggest of these was using a former president as an attack dog. This not only raised questions of propriety—should a former president be acting like this? And is a two-on-one contest really fair? It suggested that the Clintons are running for a co-presidency. Exit polls in South Carolina show that 58% of voters said that Mr Clinton's presence was important to their vote. Two-thirds of that 58% voted for someone other than the former president's wife.

Mr Clinton added to the bitterness of the race by pointing out that Jesse Jackson—another black candidate—had won South Carolina twice in a row (though he never got anywhere near the presidency). Mr Jackson, remember, rallied to Mr Clinton's support during the Lewinsky fiasco and even acted as his personal pastor. Mr Clinton's race-tinged dismissal of the South Carolina result contrasted strongly with Mr Obama's theme of racial reconciliation, and is thought to have tipped Mr Kennedy into endorsing Mr

Obama. For the moment the Clinton campaign has put the big dog back on his leash.

Mr Obama may have the wind at his back and the high ground under his feet. But he nevertheless faces huge challenges on Super Tuesday—a near-national primary when 22 states are in play. Mrs Clinton has wide leads, often close to 20%, in a swathe of states such as California, New York, New Jersey, Massachusetts, Arizona, Missouri and Alabama. She is particularly strong in the mega-states that have far more delegates than anything the contest has seen so far.

The machine fights back

The political landscape is also becoming more difficult for Mr Obama. Mr Obama's genius lies in firing up crowds and in building a political movement from the ground up. But this is impossible when so many far-flung states vote simultaneously. Mrs Clinton still enjoys the support of the bulk of the political establishment. She has been accumulating IOUs for decades from everybody from women's groups to trade unions. The result in Florida on January 29th may not count technically (the Democratic National Committee has stripped the state of its delegates because they defied the party over the date of their primary). But it is significant that Mrs Clinton won the primary in the first big state to vote by 17 points.

Mrs Clinton has not one but two firewalls to protect her from the Obama insurgency: working-class whites—particularly older white women—and Latinos. Both these groups tend to be highly suspicious of Mr Obama's high-flown rhetoric. They much prefer Mrs Clinton's focus on bread-and-butter issues such as health care and mortgage foreclosure. Mrs Clinton's performance on the stump may not thrill reporters. But it goes down well with people who worry about paying the bills more than about moral uplift. Mr Edwards's decision to drop out of the race could well end up boosting Mrs Clinton: he is popular with exactly the sort of white working class voters who put pragmatism above idealism.

Blue-collar whites and Latinos helped to save Mrs Clinton's candidacy in New Hampshire and Florida. And they will be even more important in some of the big states on Super Tuesday (none of the big states in play except Georgia has the same huge black population as South Carolina). Older women seem to be as solidly pro-Clinton as blacks are solidly pro-Obama. Latinos could also prove vital in a lot of Western states. This is partly because there is a long history of racial tensions between Latinos and blacks in big cities such as New York and Los Angeles. But there is also a more practical reason—Latinos are some of the first people to be hit by the economic downturn.

Mr Obama still has hope on his side. He evokes much more enthusiasm than Mrs Clinton does—particularly among the college-educated voters who are thick on the ground in California and New York. He also has a much broader appeal: red state Democrats including Kathleen Sebelius, the governor of Kansas, have flocked to his side.

The polls have had a dismal record so far—they were wrong by an average of ten points in New Hampshire and 17 in South Carolina. And the Democratic system of allocating delegates—proportionately by congressional district rather than by state—favours a relentless grind to accumulate delegates. This show will run and run.

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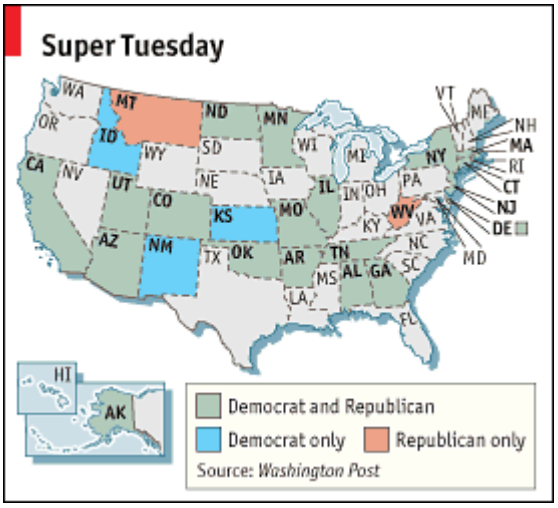
Barack Obama's organisation

The ground war

Jan 31st 2008 | COLUMBIA
From The Economist print edition

With a little help from my 13,000 friends



SHORTLY after the television networks declared Hillary Clinton the winner of New Hampshire's Democratic primary on January 8th, Jermaine Spradley called his friend Aaron Ampaw. “You down for a trip to South Carolina?” asked Mr Spradley, a financial analyst. Mr Ampaw was. The two New Yorkers reasoned that the state was a must-win for their candidate, Barack Obama.

Several weeks later, they drove from New York to the Palmetto State. They went door-to-door to make sure supporters knew where to vote. They held up campaign signs on the street, winning honks from old ladies. After a rally that evening, they returned to headquarters to load vans with supplies for the polling stations. At six in the morning, three hours after finishing work, they reported back for duty.

Mr Spradley and Mr Ampaw were among 13,000 people who volunteered to work for Mr Obama in South Carolina. An unusually effective “ground game” was key to his victory there, as it was in the January 3rd Iowa caucuses.

In both states, the co-ordinators first enlisted the help of local leaders, who were not necessarily elected officials. As the election neared, volunteers started to flood in. Eric Boyle from Virginia spent the day of the primary working the phones, getting updated lists of contacts throughout the day as poll-watchers checked off the people who had stopped by. Volunteers who canvassed had strict instructions on how to approach people.

All campaigns rely on volunteers. Zac Wright, a press secretary for Hillary Clinton, said Seniors for Hillary had canvassed senior-citizen centres with copies of her health-care plan, and that other volunteers had attended church to spread the word on her behalf. Wallace Edwards, a retired mill worker from North Carolina, spent the day of the poll making phone calls for his son, John. But Mr Obama's volunteers were more numerous and, in South Carolina at least, more effective.

The contests on February 5th will test the limits of local organisers, especially Mr Obama's. Twenty-two states will vote for Democrats. David Plouffe, Mr Obama's campaign manager, expects to have 75,000 volunteers helping out, but there is a lot of ground to cover. For the team that does it best there will be rich pickings on a close-fought day.

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California

The big one

Jan 31st 2008 | LOS ANGELES
From The Economist print edition

America's most populous state packs a big punch at last

Reuters

Battlefield CA

DURING a debate at the Ronald Reagan library, the remaining Republican candidates solemnly invoked the name of the former California governor. They paid much less attention to the post's current occupant, Arnold Schwarzenegger, who sat in the audience. But at one point John McCain coyly complimented his physique. Mr Schwarzenegger beamed: he was planning to throw his weight behind Mr McCain, and with it, perhaps, the greatest prize in the nomination race.

On February 5th California will allocate one-seventh of the delegates needed to win the Republican nomination and almost a fifth of the Democrats'. The competition will be fierce, although it will hardly resemble the campaign so far. A few crowds may be fired up; politicians may even drop in to chat with regular folk in their living rooms. Yet all this will be done with the sole aim of getting on the evening news. In California, the saying goes, a political rally consists of three people gathered round a television set.

For many, the act of voting will be even more solitary. About half of all ballots are expected to be sent through the post: they have been arriving since early January. This puts John McCain at a disadvantage. Tens of thousands of votes that could have gone to him are likely to have been wasted on Rudy Giuliani, who until his demise boasted the Republicans' strongest California operation. A *Los Angeles Times* poll taken in late January, when many ballots were returned, found Mr McCain and Mr Romney in a tie among postal voters.

Hillary Clinton and Barack Obama both have slicker campaigns and fatter purses than any Republican candidate in the state. Mrs Clinton seems to be leading among postal voters, who are older than average. In the days before February 5th the two candidates are likely to focus on places where most people vote the old-fashioned way. Chief among them is Los Angeles. Mr Obama's army of young acolytes will battle the formidable machine of Antonio Villaraigosa, the city's mayor and an enthusiastic supporter of Mrs Clinton.

Until recently she seemed likely to sweep the large Latino vote, as she has done in Nevada and Florida. That is now less certain, thanks to some late endorsements of Mr Obama by Hispanic politicians and Edward Kennedy, the senior senator from Massachusetts. Older Latinos are loyal to the Kennedy brand. Not so long ago, says Victor Griego, a political consultant in Los Angeles, pictures of John Kennedy could often be seen on living-room walls next to images of the Virgin Mary.

The Democratic race is a simple scramble for votes, both partisan and independent (the latter are barred from the Republican contest). Congressional districts on the heavily Democratic coast will award proportionately more delegates. In addition, more than a third will be allocated according to the candidates' share of the popular vote. Things are more complicated for the Republicans. In their race, the candidate who wins the most votes in a district will receive three delegates, regardless of how many supporters live there. So the 35th congressional district in south-central Los Angeles, which contains 34,000 registered Republicans, will count just as much as district four in the rural north-east corner of the state, where there are 194,000.

This formula, together with the fact that California's deepest pockets can be found near the coast, explains why the Republicans plan to spend much of their time in left-wing redoubts. John McCain's schedule included a press conference in a district where Democrats outnumber Republicans almost four-to-one, as well as a fundraiser hosted by a Hollywood studio boss.

For Californians, all this attention is both flattering and unusual. Not since the 1970s has the state played a major role in picking a presidential candidate. Yet it may prove less powerful than legislators hoped when they moved the primary date forward last February. Super Tuesday may leave at least the Democratic race open. In that case, Californians might wish they had waited longer.

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Campaign tools

A-twitter

Jan 31st 2008 | WASHINGTON, DC
From The Economist print edition

A hip version of cablese jazzes up campaign coverage

“ORLANDO, FL:...Speaking of Rudy: Scuttle is that on the bus there is open talk coming loss. 12:27 PM January 28, 2008 from web.” So reads a “tweet” from Ana Marie Cox, typed on her mobile phone and automatically published by a web service called “Twitter”. Ms Cox, formerly the internet blogger Wonkette, covered the 2004 presidential campaign from home, on her blog. This year, travelling for Time.com, she is developing a new medium: the two-sentence observation.

Twitter imposes a 140-character-limit on all tweets. The choice is technical, not aesthetic; most mobile-service providers won't carry text messages longer than 160 characters. This limit, as with any restricted poetic form, is a strength. Foreign correspondents in the first half of the 20th century learned to write in cablese, a series of abbreviations demanded by news organisations that had to pay by the word. Twitter, according to Ms Cox, forces the writer to think economically. “If I strip out the padding,” she says, “what's my real point?” Twitter, she says, works best when puncturing a candidate's own narrative. From Michigan she tweeted “Mitt [Romney] has so many things ‘in my bloodstream’ (cars, Michigan, business), you could make a v powerful vaccine out of him.”

Twitter, like cablese, favours observation rather than analysis. Travelling with the famously open Mr McCain, Ms Cox selects the best of a wealth of anecdotes: “John McCain tells us that, rather than ‘Johnny B. Goode’, he would like to take the stage to Abba's ‘Take a Chance on Me’.” Among campaign staff, only Joe Trippi, John Edwards's campaign manager and the architect of Howard Dean's 2004 effort, shows a facility for the medium, tweeting on January 15th, “Landed in Vegas. Could have sworn I walked past William Jefferson Clinton betting it all on Red. Very strange.”

Twitter does not release readership numbers. According to Biz Stone, its co-founder, the service gets half its traffic from America, with large communities in text-obsessed Japan, Britain and the Philippines. Like all web-based communications tools, it has its share of people in San Francisco talking to each other; the service crashed under the weight of messages delivered during a speech by Steve Jobs, the CEO of Apple. But the medium is hard to dismiss as a reporters' tool, particularly in countries where cell-phone networks reach farther than the internet. At 4:53 am local time on January 18th Juliana Rotich, a blogger in Kenya, tweeted in her own cablese, “in town nbi.i can smell tear gas in the air”.

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Clean coal

Up in smoke

Jan 31st 2008 | MATTOON
From The Economist print edition

Trouble for America's leading clean-coal project

IN THE middle of Illinois's cornfields sits Mattoon, population 17,340. Like many towns in the Midwest, it rose on the railroad. Its most distinctive trait may be that it is home to a Burger King that preceded the fast-food chain—order a Whopper, and you will meet glares colder than an Icee. But in December this small city learned that it would become an international leader. An alliance of energy companies had chosen Mattoon as the site of FutureGen, America's first coal-based power plant to capture carbon dioxide and store it underground, demonstrating a technology known as CCS. It would be the start of a new era for Mattoon and the world.

Now these plans are cinders. On January 30th Samuel Bodman, secretary for the Department of Energy (DOE), announced that FutureGen would be restructured. The DOE will issue a formal request for information, asking the private sector to comment on various CCS technologies, with the hope of building several plants. In short, the DOE is starting from scratch.

CCS has become something of a wishing well, filled with hopes for oil independence, purer air and economic perks for Illinois and other coal-producing states. But the FutureGen debacle has shown the all too messy reality of innovation.

The DOE first announced the project, a prototype for the private sector, in 2003. FutureGen would be a near zero-emissions plant that converted coal into hydrogen, to power electric turbines, and carbon dioxide, to be pumped underground. The DOE would oversee FutureGen and pay 74% of the costs; a group of energy companies, called the FutureGen Alliance, would pay for the rest and design, build and manage the project.

Illinois was one of the states keen to win FutureGen. Jack Lavin, head of Illinois's economic development agency, liked to say his state has more energy in its coal reserves than Saudi Arabia and Kuwait have in their oil. A wide field in Mattoon boasted easy access to a railway line, making delivery of the coal easy, and a sandstone substratum, apparently well suited for sequestering carbon dioxide.

A hint of the project's demise came in December, when the DOE's lavishly-titled acting principal deputy assistant secretary for fossil energy said that FutureGen might be restructured to cut costs (which had almost doubled, to $1.8 billion) and to improve the design. Last March a report by the Massachusetts Institute of Technology (MIT) pointed out that the project, though a private-sector prototype, was dogged by onerous federal rules, and that CCS needed more extensive trials than a single power plant could provide.

The DOE's changes address many of these concerns. The agency also claims the new scheme will at least double the amount of carbon dioxide sequestered, compared with FutureGen, and that the new plants will be operating by 2015. Mattoon may or may not be the site of a project. Route 16 through Mattoon has been lined with signs declaring support for FutureGen. For now, the only things digging in the cornfields are worms.

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A vanishing South

Gullahs v golfers

Jan 31st 2008 | ST HELENA
From The Economist print edition

Preserving the culture of the Sea Islands

THE coastal sand flats of South Carolina are a tranquil place. A local newspaper carries a front-page story about a mother and daughter who bit each other. But controversy over development is stirring the calm waters. Developers from Florida want to build a supermarket on St Helena, one of the Sea Islands that dot the coast of South Carolina and Georgia. Many locals object. Last year they mounted a letter-writing campaign against another proposed supermarket, and that one backed off. They worry that a big chain would imperil the region's distinctive black culture, called Gullah or Geechee.

The white planters who settled the Sea Islands imported thousands of slaves from West Africa, and in the comparative isolation of the islands they developed a culture that retains a strong African influence. Patricia Jones-Jackson, a linguist who spent much of the 1970s among the Gullah people, found a transatlantic connection in everything from the islanders' basket-weaving to their belief in a tripartite soul.

Perhaps the most notable feature of Gullah culture is its creole language. Structurally and grammatically, Gullah has much in common with the West African languages from which it is derived, but most of its vocabulary is English. (The term “Gullah” probably comes from Angola; “Geechee” may refer to the Ogeechee river in Georgia.) Clarence Thomas, a Supreme Court judge, was born in the region and grew up speaking Gullah.

St Helena itself is an important historical site. Early in the civil war whites fled the Sea Islands after the Union Army won a battle in Port Royal. The newly freed Gullah people became parties to an experiment often described as a rehearsal for Reconstruction. Northern missionaries established a school for freedmen, the Penn Centre, on St Helena in the 1860s; 100 years later, Martin Luther King held organising meetings there.

Robert Middleton, an islander since infancy, gives tours of the island and says he welcomes residential development. But he has a limit: “I wouldn't like to see it get like Hilton Head.” The best known of the 100 or so Sea Islands used to be a sleepy community until the 1950s, when a bridge was built

connecting it to the mainland. Shortly afterwards developers descended. The island still has its live oaks festooned with ghostly grey moss, but now they shade golf courses and resort communities, one of which is owned by Disney.

The question of how to balance economic development with cultural preservation has always been a tough one. In 1862 a northern missionary noted in her diary that one of the Union generals was worried about speculators buying up land on the Sea Islands: “He thinks matters are being, injuriously to the people's interests, hurried forward in favour of purchasers.” St Helena has an ordinance against golf courses, but a supermarket may be a step in that direction. There is already one (Publix) on the adjacent island, and another (Piggly Wiggly) on the mainland.

More formal efforts are under way to preserve Gullah culture. In 2006 Congress declared a swathe of coastline stretching from North Carolina to Florida the Gullah/Geechee Cultural Heritage Corridor. The project has yet to get started, but it has already raised interest in Gullah culture. Gardenia Simmons-White, who was born on St Helena in the 1930s, recalls when use of the language was discouraged. “We were taught not to speak ‘broken English’,” she says. But she believes the future looks brighter: in 2005 translators released a Gullah version of the New Testament.

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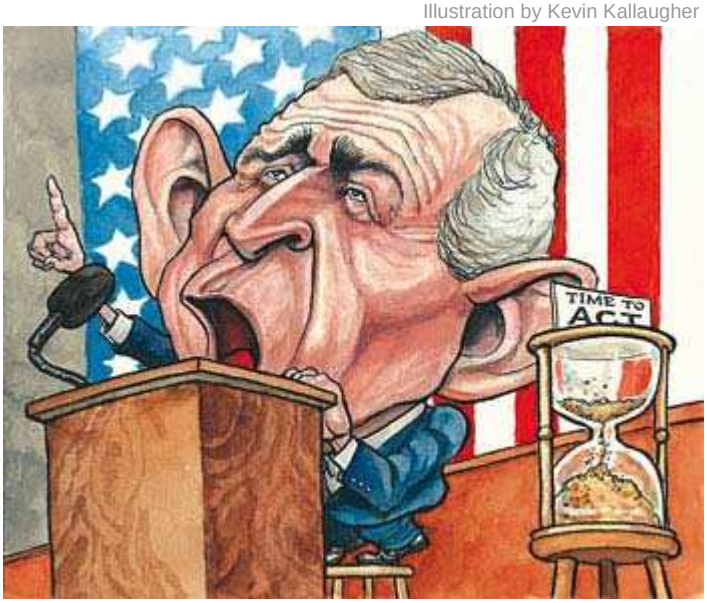
Lexington

George Bush's last grandstand

Jan 31st 2008
From The Economist print edition

Illustration by Kevin Kallaugher



The disappearing president and the shape of politics to come

THE president's state-of-the-union message to Congress is one of the odder rituals of American politics—a mixture of pomp and circumstance (all those Supreme Court judges in their black gowns and military leaders with their chests full of medals) and frat-boy hugging and hollering. The president serves up some hokum about how "the state of the union is strong" and America is a "shining city on a hill". Everybody stands and claps enthusiastically. He tosses out some red meat for members of his own party. Half the chamber rises to its feet. He throws in an obscure scheme to please this or that cabinet secretary. The secretary rises, while everybody else looks bemused.

It would be nice to say that it was ever thus. The constitution, after all, requires that the president "shall from time to time give to Congress information of the State of the Union". But, like all traditions, it has gone through lots of mutations. Washington and Adams delivered speeches to Congress. But Jefferson regarded the practice as too monarchical and time-consuming—he sent a letter instead—and the practice of speechifying was only resumed by Woodrow Wilson in 1913. The current version, with its prime-time slot, boisterous applause and "American heroes" sitting in the first lady's box, is a product of the television age.

Mr Bush looked as cocky as ever on Monday evening. But his performance demonstrated how much he has changed over the years. In his first address to Congress in February 2001 he presented himself as a compassionate centrist. He focused on improving education. He told Congress that "together we are changing the tone in the nation's capital". He ended with an exhortation in Spanish: "*Juntos podemos*", "Together we can".

In his next few speeches he was Bush the warrior. In 2002 he chastised the "axis of evil". In 2003 he pressed the case for invading Iraq. A year later he was still talking about disrupting "dozens of weapons-of-mass-destruction-related programme activities". In 2005 he laid out a big agenda for reforming Social Security, fixing immigration and spreading freedom round the world.

On January 28th he was a diminished figure—a man whose domestic reforms have turned to dust and whose war on terror has gone wrong. He made the case for stimulating the economy and continuing the "surge" in Iraq. But he is not important to either policy: a bipartisan stimulus package is already in the works and the fate of the surge depends on his successor. He declared war on pork-barrel spending. But

over the past seven years he has signed spending bills containing about 55,000 “earmarks” worth more than $100 billion. The rest was either boilerplate or small bore: praise for tax cuts and free markets, schemes such as giving hiring preferences to military spouses. The media were more interested in Barack Obama's failure to acknowledge Hillary Clinton's existence, even though she was sitting a few feet from him, and the way he made a point of talking to his neighbour, Edward Kennedy.

For the rest of his presidency Mr Bush will be a president in search of a soapbox. His favourability rating stands at about 30%, compared with over 80% when he gave his axis-of-evil speech. The Democratic majority in Congress has no time for him. He is unlikely to command the global goodwill necessary to engage in the bursts of diplomacy that marked Ronald Reagan's or Bill Clinton's last years in office. Mr Bush has defined American politics since he took office—commanding extraordinary loyalty from his fellow Republicans and driving Democrats into paroxysms of Bushophobia. Political armies were raised either to demonise the president or to demonise the demonisers. But both parties recognise that their challenge now is to fashion a new politics for a post-Bush world.

Mr Obama and Mrs Clinton agree on almost every detail of policy: they disagree bitterly about how politics ought to be conducted in this new world. Mr Obama believes he can transcend not just Mr Bush but the partisan politics that have dominated the Bush era. He wants to use the combination of his soaring rhetoric and his broad appeal to change the weather of American politics—hence his admiration for Mr Reagan's power to transform politics, if not for what he did with that power. Mrs Clinton seems to regard herself more as a new chief executive preparing to take over a company that has been run into the ground. She emphasises that she knows how to pull the levers of power in Washington to get things done—and she regards talk of transcending partisanship as naive waffle that could lead the country to disaster.

Conservative civil war

The debate about the post-Bush world is even deeper on the right. The Republicans are currently beset not just by wars between factions (business versus evangelicals versus centrist McCainiacs, which could be patched up if electoral necessity demands it), but by fundamental philosophical divisions. Liberated from the need to defend Mr Bush from his enemies, Republicans are asking difficult questions that have lain buried for years. Should they return to Reaganism or ditch it? Is there room in conservatism for worries about global warming, prison rape or water-boarding? And what role should faith play in conservative politics? If the Republicans are defeated in November, these arguments will become a cacophony.

The results of these debates will, paradoxically, reveal a huge amount about the man who commanded the stage on Monday. The Clintonistas may turn out to be right, and Mr Obama's “Yes we can” slogan may prove as empty as Mr Bush's “*Juntos podemos*”. Or perhaps the conservatives will discover that the only way to keep the Republican coalition intact is to re-embrace Mr Bush's big government, tax cuts and evangelical moralism. As with so much else in American politics at the moment, it is a matter of waiting and seeing.

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Mexico

Marching as to war

Jan 31st 2008 | MEXICO CITY AND WASHINGTON, DC
From The Economist print edition

Drug gangs ratchet up the violence in Mexico as judicial reform begins

AFP

OVER the past few weeks, gunfights between police and drug gangs along Mexico's border with the United States have left dozens dead. At the same time, two assassination attempts against a senior official in the public prosecutor's office have been foiled—the latest on January 17th when three men with grenade launchers and assault rifles were arrested.

On taking over as Mexico's president a year ago, Felipe Calderón decided to deploy the army to combat Mexico's escalating drug violence. Originally sent in as a temporary measure, the troops are still there. Faced with a relentless drugs war, Mr Calderón is now seeking to overhaul the justice system, too. The measures are ambitious; whether they will actually work is a different matter.

The very size of recent drug seizures might be seen as a sign of failure, underlining the magnitude of the trafficking. In October officials seized 23.5 tonnes of cocaine, the largest seizure ever reported in Mexico, though only a tiny fraction of the estimated 530-710 tonnes that cross into the United States every year, according to a recent report commissioned by an American senator, Richard Lugar. Mexican gangs already control America's lucrative methamphetamine trade. They have also been expanding their custom in heroin. In 2006 Mexican heroin production leapt by 58%.

Sometimes an apparent victory can actually make matters worse—at least in the short term. Last month Mexican troops arrested Alfredo Beltrán, a big shot in the Sinaloa cartel, one of Mexico's biggest drug gangs. But this may create a power vacuum leading to even more violence. Osiel Cardenas, head of the Gulf cartel, another powerful gang, has been in jail in Houston, Texas, for a year, with little discernible effect on the flow of drugs.

Many wonder whether Mexico is heading the same way as Colombia in the early 1990s, when the narcotraffickers' influence began to undermine the state. Thomas Shannon, the senior American official for the Western Hemisphere, is among the worried. “It's obvious that democratic states in Mexico and Central America are under assault by organised crime, drugs- and weapons-traffickers,” he says.

In October the Bush administration announced a plan to boost its anti-narcotics aid to Mexico by a factor of 12—to some $500m a year. But Congress has yet to approve the funding, and may well not do so. “On Capitol Hill”, notes Mr Lugar's report, “ill-will prevails, especially among Democrats.” This is partly because the plan was prepared in secret; even Republican legislators only learned of it through the

media.

If the funding is approved, America will provide Mexico with anti-drugs training and equipment over the next three years. Meanwhile, the justice system is to undergo a radical transformation. After years of talks, Mexico's Congress looks set to approve, by mid-February, a reform that will convert the country's legal arrangements from a Napoleonic-style inquisitorial system to an Anglo-American-style adversarial system. Also in the reform package are plans to give the police new powers, including the right to enter homes without a warrant when in hot pursuit.

But many are sceptical. Samuel González of ITAM, a university in Mexico City, says the measures won't help: “It is a problem of corruption, not of a lack of legal powers.” Ernesto López Portillo of the Institute for Security and Democracy, a think-tank, points out that Mexican police lack standardised procedures, such as an automatic review after discharging a firearm, and will continue to lack them even after the reforms are passed.

Overall, the number of drug-related homicides has levelled out in recent months, but this may be because there is less infighting among rival gangs as they unite, temporarily, to confront the government's forces. Mr González estimates that drugs now contribute roughly 4% of GDP. If, as is likely, America enters a recession, this will put further pressure on the Mexican economy, and drive migrant workers back south, unemployed—not a good recipe for greater law and order.

Both America's assistance plan and Mexico's judicial reform are well-intentioned, but will they succeed? Mexico's economy must grow faster than its drug trade and the will to tackle corruption must permeate the political system if any real changes are to occur. Few doubt the goodwill of Mr Calderón or his top law-enforcement lieutenants, who are widely respected by their American counterparts. But down the chain of command, corruption remains the rule rather than the exception, and many doubt that the new measures will be able to change that.

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The Caribbean

Sun, sea and murder

Jan 31st 2008 | PORT OF SPAIN
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Here, too, drug-trafficking is to blame

ELEVEN people, including five children, were shot dead in Guyana last weekend when unidentified gunmen went on the rampage in the village of Lusignan. A couple clung to their 11-year-old grand-daughter as bullets were pumped into them; a little boy clutched his mother's night-dress as she tried to crawl under her bed. Furious villagers later set up barricades, demanding protection and justice.

Police suspect it was the work of a gang acting on the orders of Rondell “Fineman” Rawlins, Guyana's most wanted man with a $150,000 bounty on his head. He is said to blame the government for the disappearance eight days earlier of his pregnant girlfriend, on her way to the nearby capital of Georgetown to give birth. But racial hatred provided the target. Like Guyana's government and half the population, Lusignan is mostly ethnic Indian, while Rawlins and his gang are ethnic Africans.

Many of Guyana's neighbours suffer even worse violence. Indeed, the Caribbean, better known for its blue skies, cricket and rum punch, is the world leader in violent crime. According to a joint UN-World Bank study last year, it has a murder rate of 30 per 100,000 inhabitants—four times the North American figure and 15 times the West/Central European average.

Jamaica is the world's most murderous country, followed by El Salvador, Guatemala and Venezuela. But some smaller Caribbean islands are catching up fast, irrespective of size or wealth. Pretty little St Kitts, with just 40,000 inhabitants, suffered three murders in four days last November. The prosperous Bahamas are far more dangerous than impoverished Guyana. In Trinidad and Tobago, the murder rate has quadrupled over the past decade, despite a fall in unemployment from 18% in 1994 to 5% last year.

The common factor behind this violence is the illegal drugs trade, which provides gangs with cash and weapons. But the link with narcotics is not simple. Since the 1990s, cocaine shipments in the Caribbean have stabilised while murder rates have soared. Suriname, no slouch in the drugs business, has the region's safest streets. Violence surges when gang politics are unsettled. Fights break out over turf, bad debts or deals gone sour. Rivalries peak when supplies run dry, and when arrests or deaths create a leadership vacuum.

More than 6m tourists visited the English-speaking Caribbean last year. Few ran into serious trouble. Most of the bullets hit young working-class men with the wrong networking skills, or their families and neighbours. But armed robbery, ending sometimes in murder, has a wider social reach. In some islands, a climate of fear curtails everyday routines. Many Jamaicans no longer risk a night-time drive to

Kingston's airport. Catholic churches in Trinidad have moved their Christmas midnight mass to an earlier hour.

Public reaction varies. Crime barely featured in last year's elections in the Bahamas and Jamaica, nor is it an issue in Belize's current campaign. But in Trinidad and Guyana, political polarisation has brought calls for get-tough policies such as “zero tolerance”, the enforcement of the death penalty, and the imposition of a state of emergency. The region's prisons are already crowded. Of 31 countries with more than three out of every thousand citizens behind bars, 17 are in the Caribbean.

Trinidad, Jamaica and Barbados are now strengthening their coastguards to choke the influx of drugs and guns—though this may simply force the drug barons to shift their trade elsewhere. On land, where police services are creaky and their staff sometimes corrupt, reform is under way, but will be a long haul. Even when arrests are made, it can be years before the culprits are brought to trial. Removing the glamour of gangland crime for the region's disaffected youth will take even longer.

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Venezuela

The mouse that roared

Jan 31st 2008 | CARACAS
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Shoulder to shoulder with Hugo Chávez

Get article background

IN THEORY, the Bolivarian Alternative for the Americas, better known as ALBA, is a Venezuelan-led trade pact based on the principle of “solidarity”. Set up three years ago by Cuba's leader, Fidel Castro, and his close ally, Hugo Chávez of Venezuela, it rejects the free-trade model of integration espoused by the United States. Many have dismissed it as a group of client states, sustained by Venezuelan oil money. Now Mr Chávez wants to turn it into a mutual defence pact that would protect its members from attack by the United States or its ally, Colombia.

“We should work on a joint defence strategy,” Mr Chávez said this week, “because [our] enemy is the same—the United States empire.” This is a thesis that the Venezuelan president has been promoting since 2000 among his South American neighbours, who have in general politely ignored it. The other three members of ALBA are Bolivia, Nicaragua and the tiny Caribbean island-state of Dominica. As they are among the poorest nations in the hemisphere, the idea of a military alliance has been met with some derision, especially now that Nicaragua and Ecuador, another Chávez ally, appear to have ruled themselves out.

Nonetheless, it marks a further escalation in the war of words between Mr Chávez and his Colombian counterpart, Álvaro Uribe. Days before his ALBA comments, Mr Chávez accused America and Colombia of planning a “military provocation” to draw Venezuela into war and thus destroy the seeds of his desired continental socialist revolution. Daniel Ortega, Nicaragua's president and his friend, joined in the sabre-rattling: “To touch Venezuela is to set the region on fire,” he said.

Nicaragua accuses Colombia of failing to respect the maritime limits between the two countries around the disputed Caribbean islands of San Andrés and Providencia. Colombia, which dismisses the claim, has largely ignored the stream of personal insults against its president emanating from Caracas, while marshalling support from the European Union as well as the United States. It is thought that Mr Chávez is merely looking to boost his flagging support at home by manufacturing an external enemy. But with a volatile 2,200km (1,400 mile) common border, infested with irregular armed groups, neither country can be certain his brinkmanship will not lead them over the edge.

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Vietnam's economy

Grappling with success

Jan 31st 2008 | HANOI
From The Economist print edition

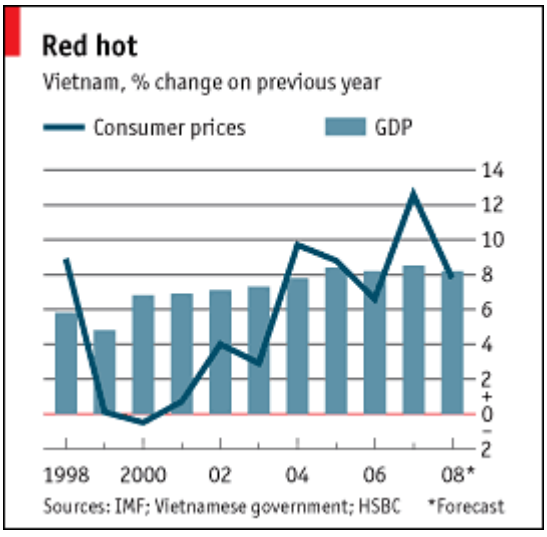
A struggle to keep the good times rolling

Panos

WORRIES about the soaring cost of living are being felt across Asia, but in few places is there more concern than in Vietnam, where the government this week said the annual inflation rate had hit 14.1%, its highest since 1995. On January 30th the central bank raised its various official interest rates by up to 1.5 percentage points to try to prevent an inflationary spiral.

The country is suffering from the worldwide surge in the cost of fuels and foodstuffs—food prices are up by a whopping 22% year-on-year. But the inflationary spike is also partly the consequence of a prolonged boom: Vietnam's economy grew by around 8.5% last year, one of Asia's most impressive rates, having grown by an average of 7.5% annually in the previous decade (see chart). As the country develops at breakneck speed, bank lending is expanding fast (by 37% last year) and there is massive demand for building materials and equipment, exacerbating the risk of overheating.

Nevertheless, the government, keen to keep the good times rolling, does not want to cool the economy down. In January the prime minister, Nguyen Tan Dzung, reiterated his "determination" to ramp up this year's growth to 9%. But Nguyen Van Giau, the governor of the State Bank of Vietnam, the central bank, admitted that curbing price rises was "very urgent". As well he might: the rising cost of living has caused a rash of strikes and worries that food might be scarce over the Tet lunar new year holiday this month. The next day the prime minister gave another speech, calling for a "well-managed monetary policy" and urging improvements in the central bank's forecasting and supervision—which sounded rather like a public dressing-down to the governor.



Vietnam's inflation target is not very exacting: the aim is only that it should fall below the rate of economic growth. But even this proved too hard last year, when inflation was around four percentage points higher than growth. After the prime minister's ticking-off, the central bank tightened banks' reserve requirements, to rein in their lending. (China, also worried by rising food prices, announced similar measures the same day.) However, the Vietnamese central bank this week loosened some restrictions on lending for share purchasing, imposed last year to discourage investors from borrowing to bet heavily on the then soaring stockmarket. The measures were, it seems, too successful: the main VN share index ended the year 21% below its March

peak.

China and Thailand have responded to public discontent at rising food costs with further price controls on some staple items. So far, Vietnam, which is intent on liberalising its economy after joining the World Trade Organisation last year, has not followed suit. Indeed the government talks only of further relaxing its grip on prices: it plans soon to start letting the market set the prices of fuels, though it has not named a date. It is also busy privatising, thereby freeing from official control prices set at present by state firms. However, it does still own enough of the food-distribution chain to be able to promise plentiful supplies of cheap produce for Tet.

Some of the things Vietnam wants and needs to do to make the economy more competitive in the long term are pushing up prices in the short term. This is true, for instance, of a big infrastructure drive to build roads, power stations and so on. The IMF, worried that public spending is intensifying inflationary pressures, is urging the government to save any windfall from its recent tax reforms, rather than use it to boost spending on infrastructure even more. The World Bank, by contrast, is urging it to spend even more on such projects, worried that the country's continued growth will otherwise be at risk. The state electricity firm has been giving warnings of blackouts as it struggles to meet big increases in demand.

The reform of public-sector pay is also fuelling inflation. Minimum wages for public servants were increased by 20% in January. In the long run, decent wages for the police and other officials should help cut corruption, which itself increases costs. Businessmen, for instance, grumble about the bribes their lorry-drivers have to pay to highwaymen in uniform. But such increases in spending power will also add to inflationary pressure. Privatisation is another example. Over time, liberated state firms should become more efficient and thus cut their prices. But in the short term they may take advantage of their freedom to raise them.

The dong with voluminous flows

Rising inflows of foreign direct investment and speculative money have put Vietnam's currency, the dong, under strong upward pressure. Early last year the central bank responded by selling dong for dollars, building up foreign-exchange reserves and thus bolstering defences against speculative attack—but also stuffing the banks with excess liquidity and prompting the lending splurge.

In December the central bank switched tactics and increased the flexibility of its currency regime. The dong can now fluctuate within 0.75% of a central rate reset each day, supposedly in response to market pressures. However, the bank still seems to be managing the central rate, which has not moved far. Pham Hong Hai of HSBC, a bank, in Ho Chi Minh City, says a stronger dong would do much to curb inflation. Officials, farmers and some manufacturers are worried that it might also hurt exports. Mr Hai suggests that the central bank could point out that exporters are suffering from rising costs of imported fuels and raw materials—so they would get at least some benefit from a currency rise. Several big privatisations are on the way, which will greatly increase foreign inflows, making it harder still to resist the pressure to let the currency rise. Higher interest rates should also help, says Dominic Scriven of Dragon Capital, an investment firm in Ho Chi Minh City. Until this week's rise they were barely above zero in real terms.

The global economic storm-clouds now gathering could have a silver lining for Vietnam, provided the tempest is not too harsh or prolonged. The country earns a lot from exports, especially of farm produce. But much of its growth is driven by domestic demand. So a modest weakening in external demand might be just enough to stop the economy overheating and curb inflation, allowing Vietnam's remarkable run of growth to continue at a more sustainable rate.

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China's bleak mid-winter

A cold coming

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Vicious weather disrupts one of the great annual migrations, as millions struggle to reach home for Chinese new year

AP

EVEN in the best of conditions, the period around China's lunar new year holiday poses immense logistical challenges. Tens of millions of people—students, white-collar city-dwellers and rural migrant workers—head home for family reunions. This year, sadly, conditions could hardly be worse. Severe weather in much of the country has disrupted air, road and rail transport, causing dozens of deaths and leaving millions of travellers stranded.

Worst affected are travellers in the south, especially in the city of Guangzhou, in Guangdong province, where 23m migrants work for most of the year. The massive crowd waiting for trains at Guangzhou's station, forced to make do for days in makeshift camps, was estimated by the government at more than 500,000-strong. Many more have been stuck elsewhere in Guangdong, and in Hunan and Hubei provinces, along the trunk line to northern China. By mid-week tempers had frayed and the government had started taking more aggressive crowd-control measures.

Officials have tried to show that the government is doing its best. At an emergency meeting on January 29th, the Politburo ordered “all-out efforts” to alleviate the crisis. One million police officers were stationed on the roads, and nearly half a million soldiers dispatched to assist local governments, partly by delivering food, drinking water and other supplies to areas cut off by the storms.

Unusually for a Chinese leader, Wen Jiabao, the prime minister, has visited railway stations in Changsha and Guangzhou. Megaphone in hand, he offered “profound apologies” to stranded travellers and promised that the government was doing all it could.

To prepare for this year's rush, the Ministry of Railways arranged 622 extra trains to handle some of the 178m passengers it expected during the 40-day period around the holiday on February 7th. Similar provisions were made to cater for the soaring numbers of bus and air passengers. Even China's waterways made plans to handle an expected 30m holiday passengers.

But none of these preparations was enough to cope with what officials describe as China's worst winter weather in 50 years. Harsh cold, heavy snow and freezing rain afflicted not only China's eastern and central regions, but also its south, which is usually spared winter's worst. The weather has also ravaged

the electricity grid. Delayed coal shipments, the normal winter decline in hydropower capacity, and ice damage to transmission systems have all contributed to cuts in power output, just as the cold weather has driven up demand. Power cuts, in turn, have further disrupted the railways.

Another reason for power shortages is the steadily rising cost of coal, which China's power producers cannot pass on to consumers. Already concerned about the climbing inflation rates recorded over much of 2007, the government has refused to let electricity prices rise. But the winter weather is likely to add to the inflationary pressures as damaged crops and hampered distribution push up food prices. The government has already reported 32.7 billion yuan ($4.5 billion) in losses from damage to crops and homes.

According to Jun Ma, chief economist at Deutsche Bank in Hong Kong, the storms' overall economic impact is likely to be short-lived, and not felt too keenly beyond hotels, airlines and other travel-related businesses. Pressure eased slightly as the weather improved toward the middle of the week, but the forecast is bad, and officials expect the difficulties to persist. They have urged people to consider giving up their home visits for this year. For many of those freezing at stations, that would add heartbreak to acute physical discomfort.

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Afghanistan's tribal complexity

In the dark

Jan 31st 2008 | SANGIN DISTRICT, HELMAND
From The Economist print edition

Far more than two sides to the conflict

BEARDED like an Old Testament prophet, an old man tugs nervously at the sleeve of the British commander, Major Tony Chattin of the Royal Marines. “The Taliban come from the north and fire from this treeline at your base,” he murmurs. The tip-off in the fields south of the town of Sangin is spot on. An hour later soldiers are exchanging fire with Taliban fighters. British troops glean a lot of information from local people in Helmand, but it is hard to know what to believe. Major Chattin commands a new base nearby. He frankly compares himself to a man trying to work out his surroundings by feeling his way by touch in a darkened room.

It might be a metaphor for the whole campaign, which is leading to so much soul-searching in the West (see article). Two years into their deployment in Helmand, British forces are still learning. The war in Afghanistan is not against a monolithic Taliban movement. In much of the country it is entwined with older struggles rooted in tribalism.

In Helmand a 20-year-old battle involves at least three main factions competing for control of the province's huge opium trade. The dominant grouping since 2001 has been that of the Akhundzada family, who are members of the Alizai tribe, and their various allies. Sher Mohammed Akhundzada was Helmand's governor till he was ousted in December 2005 under British pressure over his links to the drugs business. President Hamid Karzai has now called his ouster a mistake, citing the Taliban's successes in the area since then. It is true that Mr Akhundzada had kept the scale of the fighting in check. But the thuggery of his regime had also provoked widespread anger, and sowed the seeds for the Taliban's return.

In Sangin, power after 2001 was in the hands a warlord from the Alikozai tribe named Dad Mohammad Khan and his family, allies of the Akhundzadas. Predatory rulers, they favoured their own tribal faction and that of the Akhundzadas, while marginalising other groups, notably the Itzhakzai tribe, which had enjoyed considerable local clout under the Taliban.

In June 2006 40 members of Dad Mohammad's family were killed in a single day as the Taliban seized back control of the district. Few locals mourned their overthrow. The attackers were all Itzhakzais, according to other tribal leaders. It is not clear which affiliation mattered more: to the tribe, or to the Taliban.

Sensitivity to Afghanistan's tribal complexity has become all the rage. The American army has deployed anthropologists to help its troops understand the shifting mosaic of tribal interest groups. In Parliament

in December, Britain's prime minister, Gordon Brown, lapsed into Pushto when he talked about beefing up “traditional Afghan *arbakai*” (ie, tribal policing arrangements); he said Britain needed to “understand the tribal dynamics”.

Easier said than done. A crude ethnic breakdown—about 40% of Afghans are Pushtun, 30% Tajiks, and the rest Hazaras, Turkmen, Uzbeks and others—masks baffling complexity. One veteran says that to fight in Afghanistan “you must approach every village as its own campaign.”

And that means understanding Pushtun tribal culture. There are some 60 Pushtun tribes and 400 sub-tribes, many at odds with each other. Since the 18th century, supremacy has been held almost continuously by the Durrani tribal federation. The NATO invasion of 2001, toppling the Taliban, enabled the three main Durrani tribes, the Popolzai (the tribe of President Karzai), the Barakzai and the Alikozai (Dad Mohammad's group), to reclaim their dominance. That angered both non-Durranis and some smaller Durrani tribes.

For their part, the Taliban have always held themselves above tribal politics. Indeed, they regard tribal custom as a deviation from *sharia* law. But where individual tribes feel badly treated, the Taliban are willing allies. Intriguingly, provinces where tribal structures are strongest, such as Paktia, Paktika and Khost, have proved most resistant to Taliban encroachment.

NATO commanders are now studying these areas hard. In Loya Paktia, as the region is known, the Taliban have struggled to gain ground against the ancient code of tribal behaviour known as Pushtunwali (literally, “do Pushtun”). It governs hospitality, honour and revenge. It has self-regulating systems of *arbakai*, tribal elders and arbitration. Loya Paktia remains startlingly egalitarian and determinedly suspicious of outsiders. Yet, tempting as it is to see such structures as the answer to the Taliban, Pushtunwali is also hostile to the central government and to Western ideals, particularly of education and sex equality. Feuds in Loya Paktia are still often settled by the exchange of women.

Away from Loya Paktia, in the south, and notably in the Taliban heartlands of Helmand and Kandahar, the old tribal structures have eroded. Yet the drug-financed warlords who hold the balance of power are still rooted in the tribal system. This makes them hard to dislodge. But they in turn find it difficult to extend their power across tribal lines. The upshot is perpetually indecisive factionalism.

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Pakistan

On edge

Jan 31st 2008 | LAHORE
From The Economist print edition

If he rigs, he may have to rig big

Get article background

THE army is battling a Taliban insurgency in the tribal areas of the Afghan border, in which hundreds have been killed in recent weeks. In the cities, activists shouting “Go, Musharraf, Go!” are up in arms about alleged pre-election rigging of the vote due on February 18th. Yet Pakistan's increasingly edgy president, Pervez Musharraf, went on a ten-day European jaunt to tell the West why he is still Pakistan's best bet in the “transition to democracy” and the “war against terror”.

In London he berated a respected Pakistani journalist who dared question his government's efficacy and sincerity in combating extremism. Later he said Pakistanis should thrash such journalists if necessary for being “unpatriotic”, triggering a spate of angry comments.

Mr Musharraf's war is not going well. The “Pakistani Taliban” have merged under Baitullah Mehsud, a warlord accused by the government of ordering the murder in December of Benazir Bhutto, a former prime minister. The Pakistani authorities signed a controversial peace deal with Mr Mehsud in 2005. But he used the lull to expand his army of Taliban and suicide-bombers in the tribal area of South Waziristan. Late last year an allied Taliban faction tried to seize large tracts of the Swat valley in the North-West Frontier Province. Mr Musharraf sent the army into Swat and bombed Mr Mehsud's hideouts in Waziristan. Mr Mehsud's followers retaliated by seizing a small town, and cutting off the road to Waziristan. The army is now fighting “miscreants” all over the tribal areas.

Aftab Ahmed Khan Sherpao, the former home minister, admits that the government failed to take “swift and decisive action” against the Taliban. He says the Taliban are well-financed, organised and motivated, and stopping their rise needs the backing of “political parties, civil society, [and] religious leaders”.

This is just what Mr Musharraf does not have. He is hugely unpopular and all the opposition parties want him out. Most Pakistanis also see this as America's war. This has made it hard to yield to American pressure to put its own boots on the ground in Waziristan against the Taliban. The Americans are providing aerial intelligence, counter-insurgency training and weaponry. Only rarely do the Pakistanis ask for missile attacks from American drones on targets in the border regions.

Meanwhile, it is still not certain that the elections postponed to February 18th will be held. The government has warned political leaders that they are on extremist hit lists. So security worries are curbing campaigning. Most politicians are relying on the electronic media. But the channels are shackled by new gagging laws and cannot give proper coverage to opposition rallies and protests. The air is also thick with allegations of pre-election rigging. Mr Musharraf has refused to nominate a neutral election commission or suspend the progovernment local mayors, who wield enormous influence.

Indeed, with various polls showing the popularity of his party plummeting, everyone believes that Mr Musharraf will have to rig the elections in a big way. His nemeses are the slain Bhutto's widower, Asif Ali Zardari, at the head of her party, which is riding a wave of sympathy, and Nawaz Sharif, the prime minister he overthrew in 1999. Last month Mr Musharraf told Pakistani newspaper editors that he foresaw a greater crisis after the elections—if the opposition parties did not accept the results, or ganged up on him in the new parliament. But unless he strikes a deal soon with one of his foes, one of these outcomes seems hard to avoid.

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Australia's aborigines

Stolen birthrights

Jan 31st 2008 | SYDNEY
From The Economist print edition

An apology but no compensation

Get article background

SINCE he was elected Australia's prime minister in November, Kevin Rudd has moved swiftly to set his Labor government apart from the former conservative coalition's more controversial stands. In December, he went to Bali to declare that Australia, at last, would ratify the Kyoto protocol on climate change. In January, he sent his foreign minister to Washington to advise that Australia would pull its combat troops out of Iraq this year. But none of Mr Rudd's changes matches the historical resonance of a statement he plans to make on February 13th: a formal apology to Australia's indigenous people for past injustices under European settlement.

Mr Rudd is making sure the apology is heard far and wide: he has listed it as the first item of business in Parliament's new session in Canberra. Strictly speaking, it will apply to the so-called “stolen generations” of mixed-race people, whom authorities removed from their families as children and put in foster homes, many run by churches. A 1997 report by Australia's human-rights and equal-opportunity commission found that between one-tenth and one-third of aboriginal children were taken in this way from 1910 until the policy was abandoned in 1970. Estimates put the number at around 55,000. Some surviving victims of the policy told the commission they were physically and sexually abused. Aborigines now comprise about 2% of Australia's population.

The apology will carry much broader symbolic meaning for a people whose forebears occupied Australia for tens of thousands of years before the British claimed it in 1788. The stolen-generation removals were based partly on welfare, but more blatantly on race. Officials in the early 20th century talked of “breeding out the colour”. These and other upheavals, including losses of traditional lands, have left a legacy of trauma, poor health and high prison-custody rates among aborigines. Mr Rudd says he hopes to close a 17-year gap in life-expectancy between indigenous people and other Australians.

The 1997 report recommended both that an apology be offered and that compensation be paid for the stolen generations. During his 11 years in power, John Howard, the former prime minister, refused to offer either. This only compounded public division and aboriginal bitterness. All six state governments have since made apologies. Tasmania has also paid A$5m ($4.5m) compensation for 106 aborigines. But a national apology is what aboriginal leaders have been waiting for.

Mr Rudd himself has ruled out paying compensation. But, he says, saying sorry is a crucial symbol in “building a bridge of respect”. He says he will say it on behalf of the national government, not the present generation of Australians. This may calm misgivings among some about being held accountable for the misdeeds of others. Recent newspaper opinion polls show two-thirds of Australians support the apology. Even while its wording is being finalised, outback aborigines are preparing their journeys to Canberra for the historic day. Christine King, co-chair of the Stolen Generations Alliance, whose own mother was a stolen child, says: “There is a sense of relief that Australia will finally take this step that has been so long in coming.”

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Kenya

More mayhem than mediation

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From The Economist print edition

Reuters

Kenya's warring politicians are only just beginning to talk to each other as ethnic violence threatens to slip out of control

THE small propeller-driven plane piloted by Peter Szapary, an Austrian count turned Kenyan flower farmer, banked and flew low over the Rift Valley town of Naivasha. Some traffic was visible on the main road, the same rotten one that connects much of the interior of eastern Africa, including Uganda, with the sea. But in the town itself things were largely at a standstill. Several streets were controlled by crowds of Kikuyu youths armed with clubs, machetes, bows and arrows. Here and there, houses were burning. A few hundred youths were strung along the road outside the police station, where several thousand of Naivasha's Luos, whose heartland is some 200km (120 miles) farther west, had taken shelter. Mr Szapary landed his plane on a grass airstrip by Lake Naivasha and found out the whereabouts of his two Luo managers. One had taken shelter in the town prison, too scared to leave. The other had fled in a boat to an island in the lake; Mr Szapary later landed there and flew him back to Nairobi.

The Rift Valley has become a hub for much of the ethnic violence that has worsened sharply in the past fortnight. In Nakuru, north-west of Naivasha, at least 80 people have been killed. Now it is often a case of simple revenge, Kikuyus striking back against their Luo and Kalenjin tormentors who, in turn, did most of the killing immediately after the disputed election of December 27th. At least 1,000 have since died and 200,000 been driven from their homes. The cycle of bloodshed may be gathering its own momentum beyond the control of Kenya's political leaders.

But at least this week they started talking to each other. A former UN secretary-general, Kofi Annan, who is the leading mediator, has persuaded the incumbent president, Mwai Kibaki, a Kikuyu, to enter into negotiations with Raila Odinga, a Luo, who leads the opposition Orange Democratic Movement. Both leaders have appointed teams of three representatives to resolve what Mr Annan calls their “immediate political issues” and break the impasse. He gave warning that it may take much longer, even a year, to forge a solid and comprehensive agreement.

Still, that is progress of sorts. Mr Kibaki's newly appointed ministers at first insisted there was nothing to negotiate. Yet the main difference remains. The opposition insists that Mr Kibaki stole the election and is an “illegal” president, whereas the government argues that Mr Kibaki won fairly, so the country should carry on as normal. Britain's minister for Africa, Lord Malloch-Brown, met both sides earlier this week and said he felt they were talking about separate crises and solutions.

Mr Annan has apparently ruled out a recount of the vote on the ground that Kenyans have lost

confidence in their electoral commission. He also reckons a new election is unthinkable for a year or so. The Oranges are being urged to suppress their anger and soften their demands; even if they did, it remains unclear whether Mr Kibaki and his backers would sit alongside Mr Odinga in an interim government.

Should Mr Kibaki drag out the talks in the hope of bolstering his position without making any concession on the election or on any other issue, the European Union may seek “targeted” sanctions on Kenya. These would punish Mr Kibaki's more obdurate ministers and backers, while sparing poorer Kenyans from the effects of general trade and aid sanctions. The targeted version would include travel bans on specified individuals and their families, increased international oversight of prospective privatisations, and publicity to advertise new investigations into grand corruption by named ministers. More extreme measures would be to downgrade diplomatic relations and withdraw the considerable military support that Kenya gets from Britain and America, though Mr Kibaki has been warmly embraced in the past as an ally in the global “war on terror”.

In any event, the shooting dead, in separate incidents, of two Orange MPs, set off more spasms of lethal riots in the capital's slums and elsewhere. One was Mugabe Were, a Luhya who was popular in Nairobi; the other was David Too, a Kalenjin. In the Luos' provincial capital, Kisumu, more Kikuyus were butchered and “necklaced” with burning tyres by Luo youths.

Kenya is rife with rumour. Some say there are furious disagreements within Mr Kibaki's circle in State House. Others say he is poised to impose a state of emergency. Among Kikuyus, there is fearful talk of Luo militias loyal to Mr Odinga being trained in southern Sudan.

All sides realise that an escalation in violence from machetes to machineguns would be ruinous for all Kenyans. So far, the use of traditional weapons, including clubs and poisoned arrows, has caused the flight of several hundred thousand Kenyans who belonged to ethnic minorities in their places of abode—for instance, Luos in Central Province and Kikuyus in the west. Wholesale slaughter has yet to occur on the scale of Rwanda in 1994, but the prospect hovers in people's minds. Indeed, the fear spreading across the country may offer Mr Annan his best chance of success.

Diplomats have joined Kenyan business and church leaders in giving him their support. Though many believe Mr Kibaki is to blame for rigging the presidential vote, they have agreed not to press for immediate sanctions so as to give Mr Annan's negotiations a chance to succeed.

But if there is no breakthrough, Kenya could tear apart even more drastically along ethnic lines, with Mr Kibaki's Kikuyu-dominated government controlling the wealthy centre of the country up to Nakuru, north-west of Nairobi, while Mr Odinga's Orange opposition holds sway over the west and much of the north. Most of the Kalenjin people in the Rift Valley are hostile to Kikuyu political domination.

For many Kenyans this is both an appalling and, until recent events, incredible prospect. The country's largest newspaper, the *Daily Nation*, which had slightly favoured Mr Kibaki during the election campaign, has lost patience with him. An editorial declared that the government's “inertia and ineptitude” were

“exposing base instincts and driving the country back to pre-colonial times”.

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Congo

Peace at last?

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Hope for an end to one of Africa's bloodiest conflicts

IT WAS not the most auspicious of starts. When eastern Congo's peace conference finally opened on January 6th in the town of Goma after several delays due to logistics, it had no mandate to negotiate a settlement or any other clear aim. But after a fortnight of negotiation, a peace agreement has been signed that may end—or at least put on hold—a particularly vicious conflict. In the past year about 450,000 people have been made homeless by fighting in North Kivu province. One aid organisation says that 45,000 Congolese die every month due to the country's conflicts.

Government delegates, local militias known as the Mai Mai and Tutsi rebels loyal to a renegade general, Laurent Nkunda, agreed to a ceasefire and to respect a UN-patrolled buffer zone in North Kivu. This was accompanied by promises of foreign money for reconstruction from America and the EU.

The agreement was, above all, a result of consistent pressure applied on all sides by the Bush administration. The Americans think Mr Nkunda's Tutsi rebellion has for too long distracted Congo's government from what they see as its more pressing obligation—to rid its volatile eastern borderlands of the rebel Democratic Forces for the Liberation of Rwanda (FDLR). Composed in part of ex-Rwandan soldiers and extremist Hutu militias, who were responsible for Rwanda's genocide mainly of Tutsis in 1994, the FDLR has long been a thorn in the side of Rwanda's American-backed government run by Paul Kagame.

The presence of the FDLR in eastern Congo provoked two Rwandan invasions that plunged the whole region into turmoil. Until late last year, it was feared that Congolese efforts to crush Mr Nkunda, who claims to protect Congo's Tutsi minority against the FDLR, might provoke yet another intervention by Rwanda. Tension was lowered, however, as Congo and Rwanda agreed on an American-brokered plan to go after the FDLR. Progress against the Rwandan rebels may persuade Mr Nkunda to honour the peace agreement.

But it is not all over. It was the disastrous failure of a military offensive in December against Mr Nkunda's 4,000-strong army that pushed Congo's president, Joseph Kabila, to call the Goma conference. The army may fare no better against the FDLR when it starts offensive operations in March. And a decade of violence suggests that military might cannot solve the entwined problems plaguing Congo and Rwanda. A peace agreement in Congo will probably not hold unless Rwanda brings its own rebels to the negotiating table.

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Israel, Egypt and the Gaza Strip

The shifting balance of power

Jan 31st 2008 | CAIRO, GAZA AND JERUSALEM
From The Economist print edition

Hamas's breach of Gaza's border with Egypt has changed all calculations

ABSORBED by speculation about their government's future after an inquiry commission this week released its final report on the 2006 Lebanon war (see article), Israelis seemed briefly to forget about last week's dramatic breach of the Gaza-Egypt border by Hamas, the Islamist movement that controls the Gaza Strip. Yet in Gaza as in Lebanon, the short-sighted planning that the Winograd commission criticised was much in evidence. More to the point, there is a gloomy sense among Israelis, alongside a pleasurable mood of *Schadenfreude* across much of the Arab world, that Israel has taken a bad knock.

The border breach seems to have taken Israeli leaders and generals by surprise, yet there was no shortage of warnings. Blowtorched perforations outlining a large hole in the corrugated-iron border fence had been noticed by outsiders in October and mentioned in meetings with Israeli officials. A European military source says Egyptian officers first warned their Israeli counterparts in November of a possible breakout.

Perhaps a stream of such low-level alerts had dulled the military planners' senses. And Hamas bided its time. After an Israeli suspension of fuel deliveries provoked widespread power cuts, Hamas took advantage of international sympathy to knock down the border wall, letting hundreds of thousands of Palestinians stream into the nearby Egyptian towns of Rafah and el-Arish to stock up on goods.

The mood among Gazans was one of euphoria mixed with desperation, as young boys, old women and hardened traders and smugglers scrambled up and down ladders and struggled across ditches under the flattened wall to grab whatever they could from Egyptian shops and hawkers on the other side. The array of goods, some on donkey-carts, others on pick-up trucks, mostly on people's backs, was baffling in its magnitude: bags of cement, mattresses, Japanese scooters, goats, cows, chickens, flour, washing-up liquid and soap, cans of every sort of fuel, chairs; in one battered car, four live sheep were crammed into the back seat. But the sense of freedom and exhilaration was also mixed with foreboding. No one seemed to know what the future might hold.

By this week Hamas militants were co-operating with Egyptian troops to put the barbed wire back up. But this is the third time Hamas has taken the world by surprise by keeping its extensive preparations discreet enough to be just under the radar. And as with the first two times—its overwhelming election victory two years ago and its rout of forces loyal to Fatah, its secular rival, in Gaza last June—most would agree it has shifted the strategic balance.

The Egyptian and Israeli strategy, discreetly backed by many Arab countries, of strangling supplies to Gaza as a way to squeeze the population and make Hamas unpopular has backfired. Hamas, which rejects a peace deal with Israel, is now seen as the people's saviour, while Fatah's Mahmoud Abbas, the moderate Palestinian president with whom Israel is holding peace talks in the hope of making him a more attractive choice to Palestinians, looks weaker than ever. The breach also made Israel's border with Egypt, which is 255km (158 miles) long and in many places has no fence, vulnerable to infiltrators. Police in Sinai reportedly apprehended at least one team of armed Palestinians, equipped with suicide belts, sniper rifles, and detailed plans of Israeli border installations.

Above all, pressure has shifted onto Egypt. Many Israelis would be happy to dump Gaza and its troubles in Egypt's lap. But as an offshoot of Egypt's Muslim Brotherhood, the main opponent to the regime of the ageing Hosni Mubarak, Hamas has considerable leverage over Egypt. The Brotherhood had sponsored dozens of demonstrations in the week before the breach, demanding relief for Gaza. Hamas has also been skilled at manipulating wider Arab opinion through television channels such as al-Jazeera, where its leaders swiftly moved from slamming Mr Mubarak for collaborating in the siege of Gaza to praising him after he let the Gazans in. With viewers riveted to scenes of the Gazans' joy at even a brief escape, the Arab mood was captured by Muhammad Abu Trika, a star Egyptian footballer, when he received a warning for raising his jersey after scoring during the current Africa Cup to reveal a T-shirt emblazoned with “Sympathise with Gaza”.

Hamas's action succeeded also in sowing discord among its foes. Israel has long accused Egypt of failing to stop smuggling across the border, to the point that its supporters in Congress had conditioned part of America's $1.7 billion in annual aid to Egypt on imposing tighter controls. The breakdown of control led to still more bitter recriminations. Right-wing Israeli commentators claim the Egyptians may themselves have engineered the border collapse, with the aim of incorporating Gaza as part of a long-term strategy to encroach on Israel. Egyptian conspiracy theorists see, instead, an Israeli plot to dump Gaza and its troubles on them. Egypt's tight-lipped foreign ministry blamed Israel for the problem, saying it remained Israel's responsibility, as an occupying power (though it withdrew its troops and settlers in 2005), to find a solution to Gaza's woes.

Yet Hamas cannot afford Gaza to lose all its economic ties with Israel or its political ties with the West Bank; it cannot even issue passports that anyone will recognise. So there is scope for compromise, but, says Ezzedine Choukri-Fishere, a former Egyptian diplomat who runs the Cairo office of the International Crisis Group, a Brussels-based lobby, “unless somebody comes to their senses it will be difficult to achieve results; there are four parties involved, all tied to each other, like four boats. None can move alone, or impose a solution without engaging the others.” Hamas has proved that Gaza's isolation cannot go on and that it can obstruct. “But it is now drunk with its victory, and thinks it can force Egypt into an agreement that would exclude the PAand Israel.”

No wonder, then, that Egypt ordered its troops to let Gazans in for a few days and summoned a Hamas team, led by Mahmoud Zahhar (see article), to Cairo for talks with Fatah to hash out a new deal for securing the border. Mr Abbas wants the interim government he appointed after Hamas's Gaza takeover in June to resume control of the Gaza-Israel crossings, perhaps with European supervision at the Rafah one into Egypt, as per a deal reached in 2005. The Arab League, the Europeans and the Americans back him.

However, none of them wants to involve Hamas in the arrangement. Hamas, for its part, wants more say in running the crossings, particularly the Rafah one. As it has shown, it can spoil any scheme it doesn't like; in any case, nobody else can run the crossings without its acquiescence. It has used the crisis to repeat its demand for unconditional dialogue with Fatah, while Mr Abbas insists that it first apologise for the bloody overthrow in June. Meanwhile, Israel has so far rejected any new border deal.

Don't say Hamas is winning

Some prominent Israelis dismiss the idea that its squeeze-Gaza strategy has failed. “So Hamas destroyed the fence—so what?” says Ephraim Sneh, a former general and minister who is a member of parliament

for the Labour party, which is part of Israel's ruling coalition. “It can't restore the economy without connections with Israel. If they keep firing rockets we'll just close the border again.”

Many others disagree. Hawks think that since economic pressure and the continuing assassination of Hamas fighters have not stopped the Palestinians firing rockets from Gaza or weakened Hamas, a full military takeover of Gaza is the only remaining option. But that would be bloody. Hamas has been following the example of Hizbullah, Israel's foe in south Lebanon, preparing bunkers and tunnels, reinforcing buildings and laying anti-tank mines along likely approach routes. Eliminating Hamas's militia would take months, and the army might have to stay in place for years—unpalatable echoes, especially in the wake of the Winograd report, of both the 2006 war in Lebanon and Israel's earlier 18-year occupation of it.

More pragmatic Israelis such as Ami Ayalon, a former head of Israel's domestic security agency, the Shin Bet, who is a minister in the coalition government, argue for a ceasefire with Hamas in Gaza. The Islamists themselves have given hints that they are open to this, having previously demanded that it extend to the West Bank too. The daily dose of rockets has dropped sharply since last week, suggesting that Hamas does have some control over the other groups that fire them and possibly signalling its openness to a deal.

Until something moves it will be ordinary Gazans and the rocket-weary residents of Israel's southern towns, especially Sderot, who pay the price. According to the UN, Gaza's power supplies are still running at 75% of normal, which means long power cuts in most places, sporadic running water, and 30m litres of sewage a day being dumped near the beaches that are one of Gaza's few natural resources. Even the most basic food aid (including flour and sugar) is not getting in fast enough, and rubbish is piling up in the streets.

A lasting solution may not come quickly. Each party, including Hamas, can make political capital from the continued closure of the borders, as long as it is not the one getting blamed. But Hamas is the one that has gained in strength, while the others, Egyptian and Israeli governments included, are on the defensive.

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Gaza

A Hamas hardliner

Jan 31st 2008 | GAZA CITY
From The Economist print edition

The prickly defiance of Mahmoud Zahhar

A FLORID pink and green mural on the front of Mahmoud Zahhar's house “congratulates” the family on the hasty passage of his son Hussam to “paradise”, courtesy of an Israeli missile on January 15th, felling the second of two sons to die for Hamas's cause. Dr Zahhar remains unbowed in his determination, sense of rightness and argumentative humour.

As Hamas's proclaimed foreign minister, he has had limited contact abroad—until recently: this week he went to Cairo to discuss the breached border. In any event, the suffering of his people will persist, says the bearded and stocky 62-year-old Cairo-trained medical doctor. “Four hundred patients [in Gaza] can die of renal failure at any moment,” he says, because of Israel's alleged refusal to let in the appropriate medicine.

His anger is directed equally at Israel and the United States but perhaps even more bitterly at Fatah, the Palestinian movement his Islamists have displaced in Gaza but which has ousted the elected Hamas government, in a constitutionally questionable manner, from power in the West Bank. He refers sourly to the “corrupt Ramallah government”, after its capital town. “We *are* the Palestinian Authority,” he says, when asked if the PA could be let back into Gaza to help manage the border. “Hamas should govern Gaza *and* the West Bank. What happened was a real coup against the election results,” he says of Hamas's ousting from power in the West Bank.

He repeatedly refers to Fatah as traitors and collaborators, and denies that the accord between Fatah and Hamas in Mecca last year entailed accepting the Palestine Liberation Organisation's previous agreements with Israel—though other Hamas people have so implied. In any case, the PLO “does not represent a majority”.

Nonetheless, Hamas might accept a two-state offer if most Palestinians agreed. But it was entirely “fantastical”. He certainly would not now “accept the reality” of Israel, as some of his senior colleagues have hinted. It may, instead, become “an eternal issue”, he says, looking ahead to a distant future when, “like your European Union”, the Arab nation will form one state across its historic lands, joining up with other Muslim nations such as Turkey. “We [Palestinians] were never an independent state in history,” he notes. “We were part of an Arab state and an Islamic state.”

He sounds prickly when it is suggested that Khaled Meshal, Hamas's overall leader, who resides in Syria, is more flexible. Striking a markedly different note, Mr Meshal recently insisted: “Hamas is not extremist. It is not hard-line. Hamas is a moderate movement. It is not religiously dogmatic...We accept religious pluralism and, likewise, political pluralism.”

But it was the harder-line Dr Zahhar whom the Egyptians invited to Cairo to discuss the border. Asked to confirm his position in the Hamas hierarchy, Dr Zahhar answers with ponderous ambiguity: “My name is Mahmoud Zahhar.”

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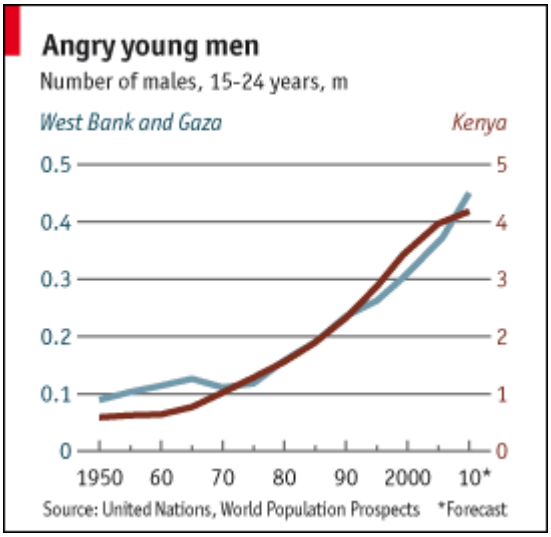
Gaza and Kenya

Young, alive but not very heaven

Jan 31st 2008
From The Economist print edition

Quick tempers come with quick population growth



GAZA and Kenya have more in common than short names ending in “a” and violent squabbles apparently not ending at all. Both have too many people, or, to be more exact, too many young men without either jobs or prospects. The resulting frustration is one of the causes of their present discontents.

In rich countries the average woman today has 1.6 children in her lifetime. The comparable woman in Gaza has over five, in Kenya just under five. One good development is that these rates have been falling. Alas, the consequences of the even higher rates of 20 years ago (about seven in both places) is a large cohort of young men aged 15-24 who are now alive (in the past many would have died as infants), relatively healthy and educated (partly thanks to foreign aid), but jobless and thus pugnacious. In this context it is apt that the word cohort means a band of warriors.

The population of both Gaza and Kenya has grown by about six times since 1950, much more than the 3.6 times of, say, North Africa or the 4.3 times of sub-Saharan Africa. In Gaza about 1.5m people now crowd into 360 square kilometres (140 square miles), making the strip's population density about two-thirds Hong Kong's. Kenya is far bigger, but the land can no longer support the rural population. So the young, exchanging urban for rural poverty, head for the slums, bringing their anger, and machetes, with them.

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Israel's war in Lebanon

A prime minister gets away with it

Jan 31st 2008 | JERUSALEM
From The Economist print edition

An inquiry commission blasts the army but lets the prime minister off the hook

"A PARAMILITARY organisation of a few thousand men resisted, for a few weeks, the strongest army in the Middle East, which enjoyed full air superiority and size and technology advantages." In one sentence, Eliyahu Winograd, a retired judge, summed up the enormity of Israel's military failure as he presented his commission's final report into the war in Lebanon in the summer of 2006 against the Lebanese Shias' military-cum-political movement, Hizbullah.

The report's 629 pages—in the public, censored version—detail a series of decision-making failures, beginning with the failure at the outset to choose clearly between two options: a sharp, short deterrent strike after Hizbullah breached the border and kidnapped two Israeli soldiers, or a full-scale assault to destroy the movement in south Lebanon.

And while the report is harsh on the government, its main target is the army, finding fundamental flaws in everything from battle readiness to planning to discipline to intelligence-gathering. The army treated the war most of the time not as a war but as a series of security operations, as if it were still fighting individual militant cells in the occupied territories—the outcome of years of doing just that during the second Palestinian *intifada*, which began in 2000. Gingerly, the report even suggests that officers allowed concern for the lives of their soldiers to play too big a role in decisions—likewise, the result of a mindset used to seeing no further than the next brief incursion.

Unlike last year's interim version, which slammed Ehud Olmert, the prime minister, Amir Peretz, the defence minister (who resigned), and others, the commission's final report avoids naming names. That, said the commission, was because it wanted to focus on systemic change. If the army follows his recommendations—it has already started implementing some, based on its own internal inquiries—then the next time militarily inexperienced leaders like Mr Olmert and Mr Peretz have to fight a war, their own errors will not have such disastrous effects; the army should be, literally, fool-proof.

But the report has disappointed the Israeli press and public, who wanted heads to roll. Above all, they had hoped for a verdict on the war's last 60 hours, when a desperate last push deep into south Lebanon gained nothing but the deaths of 33 soldiers, a quarter of the war's total Israeli losses (some 1,400 Lebanese are reckoned to have died). Here the commission said the decision was taken without "a serious consideration of whether it was reasonable to expect military achievements in 60 hours that could have contributed meaningfully," yet insisted that "there was no failure in that decision in itself."

Which means that Mr Olmert, who rode out the storm of the interim report, is in little danger of having to leave office now. Ehud Barak, who replaced Mr Peretz as defence minister and leader of the Labour party, coalition partner to Mr Olmert's Kadima, had promised to quit the government upon the report's publication, but now aides say he is "reading it". Forcing an election now, with the opposition Likud well ahead of Labour in the opinion polls, would be political suicide.

So the betting is that he and Mr Olmert will agree to early elections within a year, giving Mr Olmert time to take peace talks with the Palestinians as far as they can go. But what will be done with the report's conclusions? Israel has a tradition of publishing damningly incisive reports on its systemic failings—and then, because of those failings, not implementing them.

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Lebanon

Sliding back to civil war?

Jan 31st 2008 | BEIRUT
From The Economist print edition

Three strikes against peace

AFP

The cost of investigating assassination

IT IS not a return to civil war—yet. But the pace of the slide towards chaos that began with the assassination in early 2005 of Rafik Hariri, Lebanon's most prominent leader since the civil war of 1975-90, and which accelerated after a war with Israel in 2006, may have speeded up again. In one short week, Lebanon, already battered by a string of assassinations and a crippling power struggle between opposing factions, has taken three more blows.

The first came in the now-familiar form of a ruthlessly efficient car bomb. The blast on January 25th killed Wissam Eid, a police intelligence officer, and three others. Similar attacks had targeted politicians from Mr Hariri's pro-Western, anti-Syrian faction, which has a majority in parliament. But the bombers now appear to strike more widely and often. In December they killed a general and unsuccessfully targeted American diplomats soon after. Mr Eid was assisting a UN investigation into previous assassinations. His death sent the chilling message that someone will stop at nothing to wreck the case before it comes before a special international tribunal due to be set up in The Hague.

The second blow fell two days later, when Shia street gangs in Beirut, Lebanon's capital, ostensibly protesting against increasingly frequent power cuts, rioted on the edge of a neighbouring Christian district. Soldiers from the multi-sect army—which has been deployed heavily in the city to ensure calm, and is seen as one of the few politically neutral institutions left—opened fire after apparently coming under fire themselves. Seven Shia youths were killed, fuelling further hostility among Lebanon's largest sect towards the Sunni-Christian-Druze coalition of the prime minister, Fouad Siniora, Mr Hariri's political heir.

The third blow against Lebanon's stability was the less dramatic foundering of a once-promising Arab League initiative to mediate between the factions. Lebanon has lacked a president since November, when the Syrian-installed incumbent ended his term. Parliament is constitutionally obliged to fill the post, and after much wrangling, both government and opposition seemed to endorse the current army commander, Michel Suleiman, for the job. The stumbling block was the opposition's demand for a package deal, including a share of cabinet seats large enough to block any legislation.

The Arab League compromise, welcomed at first by all sides, had suggested that both the government and opposition concede seats to ministers appointed by the “neutral” Mr Suleiman. But it now seems that the opposition is reasserting its demand for a “blocking third” of portfolios. Arab League officials think this is because Syria and its Lebanese allies are unsure that Mr Suleiman will support their aims. For Syria, this is to stymie the Hariri murder investigation; for Hizbullah, the Iranian-backed Shia militia that provoked war with Israel, it is to retain the large arsenal that the UN Security Council wants to see controlled by the Lebanese army.

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Italy

Berlusconi redux?

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Italy's president suggests an interim government, but he may be forced to call an early general election

AFP

ITALIAN heads of state have only limited powers. But one of them is the enviable ability to drive would-be prime ministers into an agony of frustrated expectations.

Ever since the fall of Romano Prodi's centre-left government, which lost a vote of confidence in the Senate on January 24th, Italy has had, in effect, a hung parliament. There is a centre-left majority in the lower house, the Chamber of Deputies. But the confidence vote that toppled Mr Prodi's 20-month-old administration showed it to be four votes short of the necessary majority in the Senate.

The natural response in such circumstances would seem to be to hold a new election. That is certainly what Silvio Berlusconi, the main centre-right opposition leader, is demanding—loudly. With a big lead in the opinion polls, he must fancy that he can already smell the polish on the cabinet table once again.

Yet after four days of political consultations, President Giorgio Napolitano announced on January 30th that he would ask the Senate speaker, Franco Marini, to try to form an interim government. His decision was a setback to Mr Berlusconi's hopes of quickly regaining the power that he lost in April 2006. But it is likely to prove no more than a temporary one.

Mr Marini's task is to try to secure enough backing for a caretaker government that would seek to pass a new electoral law. The idea is that the government would then step down ahead of an election, which could perhaps be held in June.

It is easy to see why Mr Napolitano is reluctant to send his compatriots back to the polling stations under the present electoral law. It was passed in late 2005, during the dying months of the previous Berlusconi government. This was a time when the centre-right was almost resigned to losing power the following spring.

The law's critics argued, correctly, that the new measure was designed to make the country all but ungovernable in Mr Berlusconi's absence. Only a decisive victory at the polls can yield a workable majority in both houses of parliament. Anything less will either produce conflicting majorities in the two chambers (which have equal political power) or a razor-thin majority in the Senate, giving immense

powers of leverage to tiny parties and often to individual senators. It was this that constrained, and ultimately doomed, Mr Prodi. Even the man who drafted the 2005 law later called it “a load of rubbish”.

But that does not mean that Mr Marini will find it easy to muster the support that he needs for a government to change the law. He admitted this week that the task was “not simple”. Indeed, although he hails from the most moderate wing of the defeated centre-left majority (he is a former Christian Democratic trade unionist), Mr Marini could in some respects face even greater difficulties in parliament than Mr Prodi. Not only the parties of the centre-right but also a small Marxist party that supported the centre-left government prefer a snap election to electoral reform.

Even if Mr Marini manages to cobble together a majority, there is no guarantee that his government can deliver electoral reform. Italy's politicians have already been trying unsuccessfully, for two years, to agree to a new system. Mr Marini would have the added handicap of needing to overcome the resistance of an angry, impatient Mr Berlusconi.

Recent opinion polls have given the media tycoon a lead of between nine and 15 percentage points. Even if an election is held under the present system, he hopes for a stable majority in both chambers that would give him another five years in office. A Florence University professor, Roberto D'Alimonte, calculates that, on the basis of the latest polls, the centre-right would have a Senate majority of at least 11 seats.

If he were allowed to go straight to the hustings, Mr Berlusconi would be able to capitalise on the negative image of a squabbling, hamstrung Prodi administration. The risk is that this might fade from voters' minds after a few months of interim administration. And there is a danger that a Marini-led government could turn out to be more than just a stop-gap. Lamberto Dini's 1995-96 cabinet was meant to stay in office for only a few months, but in fact it hung on for 16.

Indeed, the path of a Marini government and of any attempted electoral reform is strewn with various dangers for Mr Berlusconi and his allies. Any new electoral law would doubtless aim to curb the powers of the small parties. If the centre-right were to go along with it, that would alienate two tiny groups whose defection from the centre-left to Mr Berlusconi's camp played a crucial part in the defeat of Mr Prodi on January 24th.

Without an agreement on new electoral rules, however, and without a fresh election, a referendum must be held by June. That could also be bad news for Mr Berlusconi. Voters are being asked to endorse a new system to give a “victors' bonus” of parliamentary seats, not to the winning coalition as under the present system, but to the most successful single party. Mr Berlusconi has failed in his efforts to drive his centre-right allies into such a single party. So the only foreseeable beneficiary of such a change is the recently united, centre-left Democratic Party.

The party's leader, Walter Veltroni, now mayor of Rome, is in any case a formidable opponent for Mr Berlusconi. He is almost 20 years younger, for a start. Like the media tycoon, he speaks clearly, without resort to political jargon, in a way that young voters in particular find appealing.

Even more strenuously than others, Mr Veltroni has been lobbying for delay. He does not want a vote to be held for a year or more. That would buy time in which he might hope to shuck off the damaging legacy of Mr Prodi's final months. But the polls are revealing an idiosyncrasy that suggests this may not matter as much as might be imagined.

Large numbers of Italians now say they would back the Democratic Party, if only it would run alone. This suggests that voters want the moderate left to break free of the Marxists and radicals who were an essential, but consistently awkward, component of Mr Prodi's coalition (even though the moderate left would probably still need them to form a government). The most recent survey of opinion in *Corriere della Sera*, Milan's big newspaper, suggests that, if the Democrats ran alone, the centre-left's overall share of the vote could be a mere 2.5 points below the centre-right's. And that is before the campaign starts.

An early poll is still Mr Berlusconi's best bet. But, as with any bet, one can never guarantee a profitable result.

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German state elections

Hessen lesson

Jan 31st 2008 | BERLIN
From The Economist print edition

Angela Merkel ponders the right conclusion to draw from two state elections

THE Christian Democratic Union (CDU) ruled Hesse and Lower Saxony before the state elections on January 27th. It remains the largest party in both. Yet the results were a shock. In Hesse its share of the vote slumped from 48.8% in 2003 to 36.8%, barely ahead of the Social Democrats (SPD). Hesse's premier, Roland Koch, may lose his job. The Left Party, an amalgam of the former East German communist party with west German leftists, won seats in both states and threatens to complicate German politics permanently. Germany, it seems, is leaning leftwards.

AP

Only a middling result, Merkel scolds Koch and Wulff

This will rattle the balance between the CDU and the SPD in the ill-tempered “grand coalition” that governs Germany. It will also shape their plans for the 2009 federal election, when each hopes to evict the other from power. The SPD senses it is on the right track; the CDU is groping. The next test will come in Hamburg, also ruled by the CDU, on February 24th.

For the CDU, the strongest message from Hesse is that xenophobia will not work. Mr Koch, panicked by the rise of the left, thought he could rally support by blasting “young foreign criminals”. He failed. Andrea Ypsilanti, the local SPD leader, did better with her calls for “social justice”. Her near-victory is a boost for Kurt Beck, the SPD's national leader, who has given his party fresh heart by distancing it from the reforms enacted by the previous SPD chancellor, Gerhard Schröder, and by pushing nostrums popular on the left, such as minimum wages.

But the SPD's leftward tilt has been only a partial success. In Lower Saxony its 30.3% share of the vote was the lowest since the second world war. Even in Hesse, despite its rise from 29.1% to 36.7%, it scored its second-worst result. In neither state could it stop the Left Party from crossing the 5% threshold for seats in parliament.

In Hesse this has created an almost insoluble coalition conundrum. The SPD is the largest constituent of a left-wing majority that includes the Left Party and the Greens. But Ms Ypsilanti refuses to govern with the Left Party, which the SPD considers irresponsible, or even to rely on its support from outside. She would prefer a “traffic-light coalition” with the liberal Free Democratic Party (FDP) and the Greens (the SPD's colour is red, the liberals' yellow). But the FDP says no. That might mean another state-level grand coalition, led by some CDU leader other than Mr Koch. Or he could limp on for a while, as head of a minority government.

Chancellor Angela Merkel, who leads both the CDU and the grand coalition in Berlin, will take more heart from the result in Lower Saxony, which suggests that the rise of the Left Party need not mean either parliamentary deadlock or a leftward lurch. Although the Left Party won 7.1% of the vote, the CDU did well enough to continue in coalition with the FDP under the state's popular premier, Christian Wulff. He did some things one might expect from the right, such as reining in spending and introducing fees for university students. But by bowing to the left on issues like minimum wages and avoiding Mr Koch's

demagoguery, he got the sort of result Ms Merkel hopes for at national level in 2009.

Duplicating Lower Saxony's formula in a federal election will not be easy, though. Ms Merkel's selective surrender to the SPD's demands for minimum wages and more generous welfare benefits is drawing criticism from the conservative and business wings of the CDU. But to defy the SPD with distinctive conservative policies would risk offending public opinion and paralysing government.

Ms Merkel is still Germany's most popular politician, but the economy is slowing and she leads a coalition more inclined to squabble than act. Her bet is that German voters are clustered not on the left but in the middle, ground she hopes to occupy with an eclectic mix of policy ideas. She will score points for leadership if she can enact the few reforms that muster agreement from both main parties. For style, she is likely to put on Mr Wulff's clothing.

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Russia's presidency

The pseudoelection

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From The Economist print edition

The runners and riders in a mock race

THE Russian presidential election on March 2nd was never going to be a thriller. Its outcome was clear from the moment Vladimir Putin announced his chosen successor: Dmitry Medvedev. Perhaps decorum might still have been observed by letting one opposition candidate stand. But the Kremlin has no time for niceties; it has refused to register Mikhail Kasyanov, once Mr Putin's prime minister, and has also kept out most foreign election observers. The only two serious candidates besides Mr Medvedev will now be an extreme nationalist, Vladimir Zhirinovsky, and Gennady Zyuganov, perennial leader of the Communist Party—plus a man nobody has even heard of.

The excuse of the Central Election Commission for not registering Mr Kasyanov is that 13% of the 2m signatures supporting his candidacy were invalid. Gathering so many signatures in a few weeks, as the rules demand of an independent candidate, is nearly impossible. But the joke is that the commission still registered Andrei Bogdanov, whose unknown Democratic Party took only 90,000 votes in December's parliamentary election.

Mr Kasyanov's rating of less than 2% hardly threatens Mr Medvedev, who has refused to take part in televised debates but still dominates prime-time news with flashy promises to double pensions and raise wages. But to register Mr Kasyanov would have given him free access to television and, more damagingly, could have legitimised him as a genuine liberal opponent. Having got rid of his challenger in advance, Mr Medvedev can now appropriate some of his liberal language.

A speech he gave last week, before representatives of the Kremlin-approved great and good, was music to moderate liberal ears. With a straight face, Mr Medvedev talked of the importance of pluralism, freedom and justice. Property rights and free media were essential to building democracy. And Russia must follow the rule of law. At present, he admitted, “Russia is the country of legal nihilism.”

On the same day an indictment of such nihilism was delivered by Vasily Aleksanyan, a former executive of Yukos who was appealing to the Supreme Court to save his life. The 36-year-old Mr Aleksanyan has been in pre-trial detention since April 2006 on charges of tax evasion and embezzlement. His real crime, it seems, was to defend Mikhail Khodorkovsky, a jailed tycoon. A few months after his arrest Mr Aleksanyan was diagnosed with AIDS, but for the past 14 months he has been denied the necessary treatment.

Mr Aleksanyan may also have tuberculosis, and his eyesight has been so impaired he cannot read the charges against him. He told the Supreme Court that an investigator blackmailed him, promising medical treatment if he testified against Mr Khodorkovsky to support new charges against the tycoon. When he refused, he was put into a cell “covered in mould, fungus and staphylococcus, which eats your skin alive”. His allegations carried sinister echoes of the Stalinist years.

The European Court of Human Rights has ordered Russia to transfer Mr Aleksanyan to a specialist hospital, but the government has failed to comply. If Mr Aleksanyan dies in custody, the court may find the country in violation of his right to life. This week Mr Khodorkovsky went on hunger strike in protest.

Even so, Mr Medvedev's speech should not be dismissed as wholly empty rhetoric. Russian leaders have a habit of keeping some of their promises—Mr Putin kept a pledge to fight the oligarchs and restore the role of the state. Indeed, were Mr Medvedev an independent-minded candidate, his speech could have given some ground for optimism. The trouble is that behind him stands Mr Putin, his probable prime minister and (perhaps) bad cop to Mr Medvedev's good cop.

Mr Medvedev will become Russia's president after March 2nd, but may well not be in charge. Indeed, a paradox is that despite its pre-determined result, the election will not do its main job: the transfer of

power from one person to another. In this, as in other ways, it can hardly be called an election at all.

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Poland's past

Sleeping dogs that won't lie

Jan 31st 2008 | WARSAW
From The Economist print edition

A book on Poland's anti-Semitic record triggers fierce controversy

FOR many countries occupied by Germany in the second world war, one shameful feature was the collaboration of locals. In Poland, though, the war is usually portrayed as a single heroic struggle, against Russians as well as Germans. So new claims of a latent anti-Semitism that led some Poles to commit crimes against Jews has caused a stir.

Reuters

Holocaust survivors, not always welcome

The best-known champion of these claims is Jan Tomasz Gross, a Polish-born historian at Princeton University in America. His book “Neighbours”, published in 2001, told the story of Jews in a village in occupied Poland who were herded into a barn that was set alight. The crime was committed, he said, not by the Gestapo but by the villagers. Now his latest book, newly published in Polish, has caused a fresh rumpus.

Most of the facts discussed in “Fear: Anti-Semitism in Poland after Auschwitz” are well known. The book focuses on the Kielce pogrom, the murder of more than 40 Jews by local Poles in July 1946. One chapter is devoted to refuting the belief that Jews were responsible for the imposition of the post-war communist regime on an unwilling nation.

The most abhorrent idea for modern readers is that Jewish concentration camp survivors were killed on returning home by gentile Poles who had taken over their property. Another shock is Mr Gross's contention that Poles who hid Jewish compatriots during the war were often frightened to mention their actions after 1945 for fear of reprisals.

Criticism of Mr Gross has been harsh. Some historians and nationalists have questioned his sources and methods. Janusz Kurtyka, head of the state historical institute, called him a historical vampire. Cardinal Stanislaw Dziwisz, secretary and confidant to the late Pope John Paul II, said his book “awakened the demon” of anti-Semitism. The public prosecutor is seeking legal advice on whether the book may be defamatory. Mr Gross finds this astonishing. The country is in denial, he says; revealing the truth will have a cleansing effect.

Wildly denouncing Mr Gross is unlikely to counter the belief that Poland is a hotbed of anti-Semitism. Debating his claims properly might also remind people of Poland's unsung heroes, without whom more Jews would have died.

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Turkey, the Kurds and Islam

A religious revival

Jan 31st 2008 | ANKARA AND DIYARBAKIR
From The Economist print edition

The AK government uses Islam to win over Kurdish support

A SIGN adorned with Ataturk's favourite adage, “Happy is he who calls himself a Turk”, hangs in Diyarbakir, south-east Turkey, as a reminder of Turkey's decades-old policy of forcibly assimilating the region's Kurds. The ruling Justice and Development (AK) party might prefer “Happy is he who calls himself a Muslim”.

“Uniting around our common Islamic identity is the only way to solve the Kurdish problem,” argues one AK leader. “Islam bound us in Ottoman times and during the war of independence, why not today?” Religion has become the mildly Islamist AK's most potent weapon as it seeks to snatch control of Diyarbakir, the unofficial capital of Turkey's estimated 14m Kurds, from the pro-Kurdish Democratic People's Party (DTP) in next year's local election.

In the slums of Diyarbakir sympathy for AK is growing. “They give us free coal, free school textbooks, my vote is for AK,” croaks Fatma Demirci, a shrivelled mother of nine. Generous welfare spending, plus modest reforms to satisfy the Kurds' demands for greater freedom, helped the party to take over 50% of the vote in the mainly Kurdish provinces of Turkey in last July's general election.

Now Turkey's richest Islamic fraternity is helping the AK to win more Kurdish votes. Named after Fetullah Gulen, a liberal Muslim cleric who lives in self-imposed exile in America, the Gulenists distributed meat to some 60,000 families during the Muslim Feast of Sacrifice in December. Scores of Gulenist doctors are offering free check-ups and treatment in Kurdish areas. Their message is that Turks and Kurds are brothers in Islam and that nationalism, whether Turkish or Kurdish, is bad. Such Islamic fraternities (*tarikats*) have strong roots in the region.

Other AK actions are also burnishing the party's image. A new government proposal to scrap restrictions on wearing the Islamic headscarf in universities has elated pious Kurds as much as it has horrified Turkish secularists. Kurds of all leanings cheered the arrest of 14 members of an ultra-nationalist gang whose leader, a retired army general called Veli Kucuk, is said by some to have plotted the extra-judicial murders of Kurdish dissidents at the height of the Kurdistan Workers' Party (PKK) insurgency in the early 1990s.

The government's popularity seems to be surviving even the airstrikes launched in December against PKK targets in northern Iraq. A retaliatory bombing claimed by the PKK killed seven people in Diyarbakir last month, but provoked outrage and rebounded against the DTP. One reason, some say, is that it is in practice run by the captive PKK leader, Abdullah Ocalan, making it hard for elected DTP politicians to disavow PKK terrorism. Polls suggest that the party's support has slipped.

With much of their time spent in court or in jail, few DTP mayors are able to govern effectively. Diyarbakir's mayor, Osman Baydemir, is facing 23 court cases and other investigations for such crimes as printing new-year greeting cards in Kurdish. Some mayors have been pursued for offences such as building an artificial pool “shaped like the map of Kurdistan”.

Hasim Hasimi, a moderate Kurdish politician, argues that this sort of pressure on the DTP may cause voters to return to it. Even business leaders are disquieted by the government's attempts to dilute Kurdish nationalism. “It is foolish to imagine that the Kurds' demands to develop their language and culture will go away,” says Mehmet Kaya, president of the Diyarbakir chamber of commerce.

On a recent visit, Recep Tayyip Erdogan, the AK prime minister, dismissed calls for more Kurdish-language education and broadcasting. He argued that other minorities would agitate for similar rights. His message has reached the state-run maternity clinic. Cetin Bakir, the chief doctor, rejects suggestions that his staff might communicate better with patients if they used Kurdish. “Absolutely not,” he sniffs.

Leyla Dincer, a midwife, disagrees. “What use are these?” she asks, pointing to a rack full of pamphlets on birth control. “It's all in Turkish, nobody understands a word.”

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A new silk road

The return of the scarves

Jan 31st 2008 | AGACLI
From The Economist print edition

Rural Kurds revive an old Armenian tradition

FOR centuries Armenians in the village of Agacli, in south-east Turkey, cultivated silk. With it they wove fine carpets and flowing scarves that were traded all along the silk road from China to Europe. That was until 1915, when Ottoman forces slaughtered most of the villagers, and hundreds of thousands of other Armenians. The village was taken over by Kurds and, in the 1990s, became a target for terrorists from the Kurdistan Workers' Party (PKK). Residents began to flee when the PKK started raiding the area demanding food and shelter.

www.dbimaj.com

Follow the yellow silk road

Weary of the violence, Agacli's 62-year-old mayor, Yusuf Bayram, decided two years ago to try to revive the silk trade. He was inspired by his wife, the daughter of two Armenians rescued as children by Kurdish neighbours during the 1915 massacres. But a lone pair of gnarled mulberry trees planted by the Armenians were all Mr Bayram had—until the European Union rode to the rescue with a big grant.

New mulberry trees were planted, silkworms and looms brought in. Some 15 teenage girls have been trained to spin, weave and dye the silk. Despite finger-numbing cold, they have just produced their first batch of scarves. Gulay Aslan, a former seamstress who trains the girls, says their biggest challenge is sustainability. “The EU money is finished. We need to stand on our own feet, to find markets,” she declares.

The women have formed a co-operative, but their only customer is Diyarbakir's chamber of commerce. At $35 each, the scarves cost far more than those of competitors in China and India. “They use machine-spun silk, our girls make everything by hand,” boasts Mr Bayram. Just like the Armenians, he adds.

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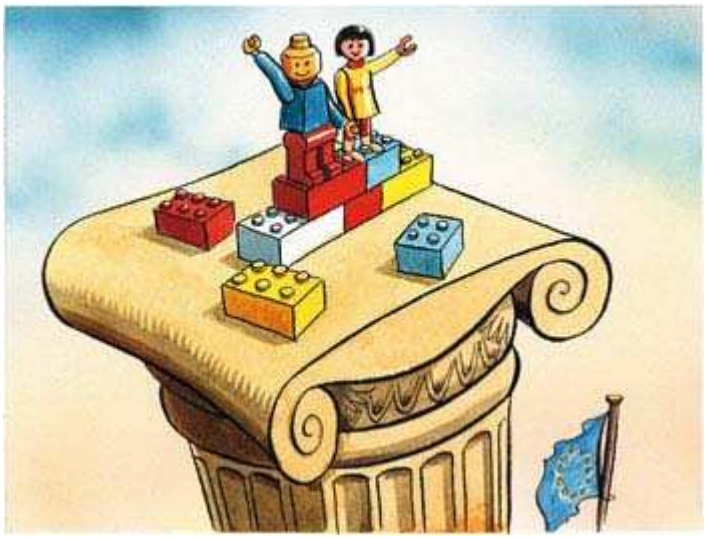
Charlemagne

Toy story

Jan 31st 2008
From The Economist print edition

What European toys say about European views

Illustration by Peter Schrank



LEADERS of the European project spend much time searching for icons of a single European identity. They name “Europeans of the Year” and give awards to books—and even to journalists. There is a Charlemagne prize, a German bauble for which this column takes no credit. Instead, it offers a humbler suggestion. In the hunt for a distinctive European identity, consider toy brands, such as Denmark's Lego or Germany's Playmobil.

These firms may be dwarfed in America by titans like Mattel, but in Europe they are cultural giants, vying for top spots in markets such as France and Germany. In their designs, business models and philosophies, they offer a striking snapshot of European aspirations, anxieties and foibles. (Tellingly, toy bosses see Britain as a case apart, closer to the American market in taste, and showing what they call an “Anglo-Saxon” fondness for heavily marketed novelties tied to films or television.)

This column offers as its European of the Year Playmobil man, a short, stiff-legged, eternally smiling, plastic figure first created three decades ago, and today churned out at a rate of 80m a year. Study these little people, and you learn much about European views of globalisation, violence, creativity, America, race, gender equality and what makes a good job. For example, says Playmobil's chief executive, Andrea Schauer, “the dream of every German mother” used to be to have an engineer for a son. Parents liked to see boys assembling elaborate structures in their bedrooms; Lego is the top toy brand in Germany. In contrast, the French shun construction toys, preferring the world of the imagination. Playmobil is their leading toy brand.

Visit Playmobil headquarters in Bavaria, and you will hear a surprisingly nuanced message about globalisation. Unlike the rest of the industry, Playmobil and Lego have largely avoided China as a place to manufacture. That helped last Christmas, when American press articles advised parents in a funk about Chinese safety standards to buy Playmobil, Lego and the like, because they were made in Europe. (Most Playmobil figures are made in Malta and their accessories made in Germany; most Lego bricks are made in Denmark.)

The head of the family that owns Playmobil, Horst Brandstätter, has been known to drift into Euro-populism when explaining the decision to invest in new German production lines during the past five years. “If everything is produced in China, who in Germany will be left to afford high-value toys?” he once asked. In fact, Playmobil plants are highly automated—its main factory in Bavaria is strikingly

empty, with tiny dinosaur arms or car parts falling from unmanned injection moulds as a few blue-dungareed staff trundle about on large tricycles. Its young customers are fickle and unpredictable, meaning that production volumes often need swift tweaking. Like many “fast fashion” chains, Playmobil suspects the lead times demanded by factories in China are too long for it.

Mrs Schauer will say only that Playmobil has decided against China for the next five to ten years. She does not criticise rivals who make toys there. Chinese factories can make items of “any quality”, she says. But when the firm experimented with making toys in China four years ago, the costs of moulds and raw materials were no lower than in Europe. And it took too much time and effort to prod suppliers to set standards high and keep them up.

What of Europe's cultural identity? Examination of Playmobil figures reveals interesting things. Europeans are squeamish about warfare and armies. American shelves groan under tanks and muscle-bound action heroes; European parents are less keen. Playmobil tanks and warplanes “could certainly make big money,” says Mrs Schauer, since children write in demanding such things. But Playmobil will not make them. Europe's history, especially Germany's, rules it out. The firm also avoids links with violent licensed brands, such as Spiderman, saying it prefers older stories that leave children's imagination free to roam.

From Venus to Mars

On the other hand, Europeans are not as pacifist as they are sometimes portrayed, nor even as anti-gun. Playmobil policemen are armed to the teeth, and have big dogs for chasing Playmobil bank-robbers (who sport stubbly chins beneath their smiles). In the adult world, many Europeans are duly happy to send armed paramilitary police to be peacekeepers, but are fretful about sending their troops into combat.

Yet go farther back in history and violence triggers little concern. There are Playmobil knights and barbarians, pirates and Roman legionaries, all wielding lethal weapons. Europeans can even live with American military toys, if they are old enough: there are Playmobil cowboys from the Wild West, and soldiers from both sides in the American civil war.

The difference is philosophical, says Mrs Schauer. There are no more knights and pirates, so their combat is a “resolved story”. Modern war is “really horror”. That is echoed by Gabi Neubauer, a librarian buying toys in Nuremberg. She suggests that “it is more honourable to fight with a sword, somehow.” Not all explanations are as high-faluting. Asked why Playmobil makes any tiny toy guns at all, Mrs Schauer admits “otherwise, we probably wouldn't be accepted by boys.”

Girls are well catered for by Playmobil: women role models vary from pilots to policewomen. But when it comes to race, Playmobil figures are almost all white. European children have never asked for anything else, and Europe accounts for 90% of turnover (two ethnic families, the Costas and the Wongs, are on the way). American customers are different. Some have asked for black pilots, Playmobil bosses say, and the firm may yet produce them. The all-important American market is one that Playmobil yearns to break into in a big way—if it can do so without betraying its calm German vision of toyland. That is a tricky conflict to resolve: and a very European one.

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Corrections: Spanish bishops and eastern European pipelines

Jan 31st 2008
From The Economist print edition

In “The bishops' revolt” (January 12th), we said that 150,000 people had joined a Christian rally in Madrid. The correct number was 1.5m. The map in “Pipedreams” (January 26th) showed the planned South Stream pipeline crossing Romania. In fact it will go through Serbia. Sorry.

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The British army

Friendly fire in Afghanistan

Jan 31st 2008
From The Economist print edition

Eyevine

British soldiers are under attack, not from the Taliban but from NATO allies

THE British army has been fighting hard for the past two years up and down Afghanistan's Helmand river valley, but it still has little to show for the death of more than 80 soldiers. Many Taliban have been killed, including senior commanders, but the insurgents have a large pool of recruits. British forces can take ground, but too often their Afghan allies are unable to hold it. The town of Musa Qala was lost and recovered. The big prize—the re-opening of the road to the Kajaki dam to refurbish its power station—remains elusive.

The British army had hoped to redeem itself after the fiasco of the unpopular war in Iraq by taking on the "good" fight in Afghanistan. But commanders now worry that the Afghan venture may prove even more difficult, which could redouble the sense of failure and perhaps throw into doubt Britain's readiness to use "hard power" in future.

The army's self-esteem is not helped by a new vogue for Britain-bashing. Afghanistan's president, Hamid Karzai, is fond of Britain's television and royal family but has been less than grateful for its military efforts. The deployment of British forces in Helmand, he said on January 24th, had only brought more insecurity. Britain's insistence on removing the governor, Sher Mohammed Akhundzada, widely regarded as brutal and corrupt, had been an error. "I made the mistake of listening to them. And when they came in, the Taliban came," said Mr Karzai.

Western diplomats agree that, at a minimum, Britain's soldiers are struggling to cope with the tribal complexity of southern Afghanistan (see article). In December Mr Karzai expelled two senior diplomats, a Briton and an Irishman, for allegedly holding "unauthorised" negotiations with the Taliban in Helmand.

Far more serious, for the Western effort as a whole, is the fact that Mr Karzai blocked the appointment of Paddy Ashdown—a former marine commando, leader of Britain's Liberal Democrats and international supremo in Bosnia—as the new United Nations representative in Kabul. A slew of reports out on January 31st gave warning that Afghanistan was on its way to becoming a humanitarian disaster and failed state. The latest bombings—including that of Helmand's deputy-governor—are hardly encouraging. Lord Ashdown's brief would have been to improve co-ordination of the civilian reconstruction and informally to provide political guidance for NATO's military campaign. Mr Karzai felt this smacked too much of the return of a British colonial viceroy.

The trouble for Britain is that America has joined in the criticism. The British army, with experience of counter-insurgency in its former colonies and Northern Ireland, despaired of America's failings during the

early years of the occupation of Iraq. So it was galling to hear Robert Gates, America's defence secretary, complain recently about his allies in southern Afghanistan. American troops in the south-east, said Mr Gates, were doing a “terrific job” fighting insurgents. “But I think our allies over there, this is not something they have any experience with.”

The American army has overhauled its tactics, drawing heavily on the lessons of British imperial policing. Boosting its forces in Iraq has helped bring violence down. British troops, by contrast, have been leaving southern Iraq as quickly as they can respectably do it. In Afghanistan some of the areas under American control are more stable than either Helmand or neighbouring Kandahar, from which Canada threatens to withdraw its bloodied forces unless at least 1,000 more troops from other NATO countries show up.

Britain is belatedly re-examining the way it operates, placing greater emphasis on the “comprehensive approach” in which military, economic and political strands are more closely interwoven. An army report on abuses committed by British soldiers in Iraq noted that the army had failed to anticipate the difference between operating in Iraq and in, say, Northern Ireland or the Balkans. Much the same could be said about Afghanistan.

Counter-insurgency, however, costs money, men and political commitment—all of which are in short supply. The army sees Gordon Brown as unsympathetic; the prime minister may be considering a new bank holiday to honour the war dead, but what the soldiers really want is more money. American commanders have large pots of cash to pay for quick-impact schemes, sometimes as simple as distributing Korans and refurbishing mosques.

The American army is expanding, but British generals cannot get authorisation for a few thousand more soldiers to relieve shortages of some specialists. Yet recruitment is slipping and more servicemen are leaving. There are signs that training is being curtailed: paratroopers are doing fewer jumps and some reports suggest that the combat-infantry course may be shortened. A parliamentary report on January 28th called the failure to give army units the required 24 months at home in between six-month tours “unacceptable”.

This overstretch hardly compares to the strain endured by American units, which spend 15 months in the field and just a year at home—which is painful but provides invaluable experience. Britain will probably extend the tours of some soldiers—commanders, intelligence and civil-military liaison officers. It also wants the NATO headquarters responsible for southern Afghanistan to come permanently under British command.

On the ground, British troops are more likely to complain of too little action than too much. But there is a mismatch between America and its allies, not just in resources but also in commitment. “The Americans are at war,” British officers have taken to saying. “We are on operations.”

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Sleaze in politics

The hits just keep on coming

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From The Economist print edition

How corrupt are Britain's politicians?

THE Mother of Parliaments still cuts a lot of ice abroad. At home, however, its reputation for probity is waning as stories of financial misconduct multiply.

The latest in a succession of revelations concerning money and politics (see table) involves Derek Conway, a Conservative MP who employed his son as a researcher at the taxpayer's expense. Hiring relatives is not illegal (though outrage is growing at the sheer number of MPs who do it) but Mr Conway's son was a full-time university student at the time. There is little sign of the work he did in exchange for £40,000 ($79,500)-plus over three years from his father's office budget. Mr Conway faces a ten-day suspension from the House of Commons, and questions are being asked about similar payments to his elder son. On January 29th David Cameron, the Tory leader, withdrew his party's whip from Mr Conway, who has announced that he will stand down at the next election.

Politics and financial scandals

Mar 06	Police begin to investigate cash-for-honours allegations
Oct 06	Electoral Commission acquits Liberal Democrats of deliberate wrongdoing in accepting donation from Michael Brown
Apr-Jul 07	Police file on cash-for-honours sent to Crown prosecutors; no charges brought
Nov 07	Police investigate Labour's receipt of funds from David Abrahams through conduits
	Harriet Harman admits receiving donation through a conduit
	Peter Hain informs Electoral Commission of unreported donation
	Wendy Alexander admits receiving illegal donation
Jan 08	Peter Hain resigns from cabinet on news that police are to investigate a number of unreported donations
	A donor says payment to Alan Johnson was made through a conduit
	Derek Conway has Conservative whip withdrawn after parliamentary investigation into misuse of funds

Labour MPs are relieved to see the Tories sweat, for allegations of impropriety concerning their own deputy-leadership race last summer are yet to abate. On January 27th the *Sunday Mirror* maintained that the campaign of Alan Johnson, the health secretary, had failed to declare donations totalling over £9,000 to the Electoral Commission (EC) on time. He insists that his staff did declare them and noticed only in December that they were not listed on the ECwebsite—a claim the EC is checking. It then emerged that one of the gifts was a cheque made out by the brother-in-law of the real donor. It is illegal to accept money through intermediaries unless its true source is declared. Labour's general secretary resigned in November on that very point, and police are investigating some £600,000 in murky donations.

Sleaze dogged the Tories during the 1990s, but now politicians of all stripes struggle to command the trust of voters. Yet politics in Britain has long been thought relatively clean. The undeclared donations of £103,000 that forced the resignation on January 24th of Peter Hain, the secretary for work and pensions and for Wales, would have shocked fewer people in some other democracies.

Jonathan Hopkin of the London School of Economics says that Britain's good reputation is not entirely misplaced, but the lack of reliable measures makes it hard to be sure. Perhaps the best, he says, is the Global Corruption Barometer survey by Transparency International, a not-for-profit outfit. Asked to rate their political parties from one (not at all corrupt) to five (extremely corrupt), Britons responded with 3.5—higher than any other walk of life (the media was runner-up) but below the EU average of 3.7 and America's 4.1. They gave the legislature a rating of 3.1, again slightly better than Europeans and Americans.

Neither is it obvious that political grubbiness is increasing. Some suggest that spiralling campaign costs and the decline of party membership have forced fundraisers to take money from whatever source they can. But comparisons across time are as hard to draw as comparisons across nations. Until a new law on the matter was passed in 2000, Britain had one of the world's least-regulated political-funding regimes. Earlier misdemeanours are less likely to have become public knowledge.

Yet none of this justifies insouciance in the face of falling trust in politics. An obvious first step would be finally to agree on reform of party funding. The parties currently concur on the fundamentals (an

increase in state funding for parties in return for tighter limits on donations and spending) but the details, such as whether the limit on contributions should apply to trade unions, have proved confounding.

Politicians should also be seen to take corruption more seriously. Mr Conway cited “administrative shortcomings”. Neither Mr Cameron nor Gordon Brown, the prime minister, mentioned sleaze during their weekly showdown in the Commons on January 30th—though the day after Mr Brown suggested more transparency regarding MPs' pay would be nice. Such pussyfooting could encourage the public cynicism that both are keen to arrest.

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Failed banks

Avoiding the next Northern Rock

Jan 31st 2008
From The Economist print edition

The Treasury has learned some expensive lessons

Get article background

FLANKED by European leaders in the splendour of the Foreign Office's Locarno rooms on January 29th, Gordon Brown made much of the need for sweeping international co-operation to avoid future financial trouble. But the festering crisis over Northern Rock, the stricken mortgage lender that suffered the first bank run in Britain for over a century, has exposed humbler domestic flaws that require attention.

Alistair Darling, the chancellor of the exchequer, set out this week the reforms he has in mind. Once Northern Rock ran into trouble, the Bank of England found it impossible to step in behind the scenes in its traditional role as lender of last resort. Any such act had to be made public despite the risk of destroying confidence in the mortgage lender. The Treasury wants to restore to the central bank its ability to lend covertly to a bank in trouble for a limited period of "non-disclosure".

Even after the Bank of England's emergency loan to Northern Rock became known on September 13th, a run might have been avoided if savers had been able to rely upon an effective deposit-insurance scheme. Instead the system then in place protected fully only the first £2,000 ($3,980) and then 90% of any further deposits up to £35,000. That made it rational for depositors to try to get their money out— until the Treasury halted the run with an unprecedented total guarantee.

The complicated deposit insurance has already been changed so that the full £35,000 is protected. The government now wants to ensure that such compensation can be paid within a week of a bank being closed. At present the scheme is run on a makeshift pay-as-you-go basis. The Treasury is proposing "an element of pre-funding", which will come as a relief to a banking industry worried that it might have to move to an entirely funded scheme.

As Northern Rock's plight dragged on, it became clear that the government lacked the powers (short of nationalisation) to wrest control from its board and shareholders, even though taxpayers were providing the bank with ever-greater financial support. Perhaps the most important change now proposed is to allow such intervention through a "special resolution regime". This would permit a failing bank to be seized and all or part of its business to be transferred to a "bridge bank" which would keep services running for customers. It seems likely that the new powers will be overseen by the Financial Services Authority (FSA), which supervises banks and other financial businesses.

The government also wants to strengthen the Bank of England's role in ensuring financial stability. The central bank will be led over the next five years by Mervyn King, whose re-appointment as governor—ending uncertainty in unsteady markets—was announced the same day as the Treasury's proposals.

Mr Darling sought to address critics of the dismal buck-passing by the "tripartite authorities"—the Bank of England, the FSA and the Treasury—when Northern Rock needed a hand. In future crises responsibilities will apparently be clearer, but that still leaves at least one problem. As David Llewellyn of Loughborough University points out, the central bank has the money but the FSA has the information. More co-operation between the two will help, but Mr Darling will not reverse the reform that stripped banking supervision from the central bank and handed it to the FSA. It was his predecessor (now his boss) who took that step.

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Northern Ireland's victims

Grieving and politics

Jan 31st 2008 | BELFAST
From The Economist print edition

Sectarian sympathies still hold back attempts to move on

Get article background

HEALING the wounds incurred during Northern Ireland's “Troubles” was bound to be slow, but the latest attempt to do so may actually have set things back a bit. On January 28th four “commissioners for victims and survivors” were announced, though only one job had been advertised. The move confirmed suspicions that the unlikely duo now sharing power at Stormont—the Rev Ian Paisley, once a hardline unionist, and Martin McGuinness, a former IRA leader—could not agree on a single candidate, though they denied it.

A victims' commissioner was first promised in 2005. A year later a judge cast doubt on an interim appointment, finding that the person had been chosen primarily to please Mr Paisley's party. The post was advertised in January 2007 and again in October. Now a new law is needed to ratify the extra appointments.

Those named tick many boxes. Two are Catholic, two Protestant. The widow of a policeman shot dead by members of the splinter republican INLA, Bertha McDougall, was Mr Paisley's original choice. Patricia MacBride is the sister of an IRA member killed by an SAS soldier and her father was fatally injured by loyalist paramilitaries. Brendan McAllister (Catholic) is a mediation expert, and Mike Nesbitt (Protestant) came to fame as a television-news presenter. The four insist that their backgrounds will not determine whom they choose to meet. They will share staff and control of a £33m ($66m) budget, but each will receive the £65,000 salary originally planned for a single commissioner.

According to the “victims unit” in the office of Mr Paisley and Mr McGuinness, the job of the commissioner (s) is to “promote the interests of victims and survivors”, give money to groups and individuals, set up a consultative forum and so forth. But victimhood is a fraught subject. The unit defines victims as all those “physically and psychologically injured” in violent incidents related to the conflict, as well as those who care for them or mourn their dead. Unionists argue that relatives of paramilitaries should not be equated with those of their victims. Republicans, who identify more closely with the hard men of their movement, like to blur the distinction.

It is becoming clear that many murders from the time of the Troubles will never be prosecuted, so fine words and a little money may be the closest thing to justice that many victims and their families receive. Yet the fact that a single commissioner was unlikely to command the trust of both communities shows that differences even in bereavement threaten the province's new-found harmony. Mr Paisley has just been told by the relatives of some victims that, because he is now sharing power with Mr McGuinness, he will not be welcome at the commemoration this month of the 1978 bombing of the La Mon House hotel, in which 12 Protestants were burned to death. The commissioners have their work cut out.

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Welfare reform

Going to work

Jan 31st 2008
From The Economist print edition

Help, and a hard shove, for the jobless

Digital Vision

Getting more feet under the desk

Get article background

ONE week it's planning for the 2012 Olympics and having your photo taken with glitzy media types; the next, it's dole offices and talking about getting poorly skilled youngsters into jobs. James Purnell's move from the Department for Culture, Media and Sport into the hole left by Peter Hain at the Department for Work and Pensions means fewer invitations to art galleries and football matches, but a bigger budget and a higher profile. Mr Hain stepped down on January 24th after failing to declare political donations on time. Mr Purnell, only 37, takes over just as welfare reform is hotting up.

On January 28th the new boy stood shoulder to shoulder with the prime minister, Gordon Brown, to present the government's latest plans to cut worklessness. There was tough talk: free-riding on the welfare state was “an insult” to contributors and those who genuinely need help. There were ambitious targets: 1m of the 2.6m on incapacity benefit and 300,000 of the 760,000 lone parents on benefits are to be lured back to work. David Freud, a banker who wrote a report in 2007 for the previous prime minister on using private-sector firms to get people jobs, is to advise.

Mr Freud's return is intriguing: his report went nowhere at the time and was said to have been rubbished by Mr Brown. And this week's proposals—skills checks and training for claimants, and lots more subsidised apprenticeships—point to a prescription rather different from Mr Freud's. Relying on training to move people back into work signals a belief that poor skills, rather than laziness, hopelessness, low expectations or benefit traps, keep them jobless. Promoting apprenticeships as the solution suggests that changing things is the job of employers, with a little help from government.

Mr Purnell's speech was a riposte to the Tories, who had prescribed stronger medicine on January 8th. They believe that staying out of work is too easy, and that the jobless could do with both a helping hand and a hard shove. They propose sanctions for claimants who refuse jobs, compulsory community work for the long-term jobless and extra screening for incapacity-benefit claimants, with those deemed fit for work turfed onto the stingier jobseeker's allowance. Benefits for single parents would be cut off once a claimant's youngest child turned four. (The current age limit of 16 is high by international standards and the government too intends to bring it down, but only to seven.)

Westminster talk of welfare reform chimes with public concern that economic inactivity is linked to social ills. At the same time, a shakier economic outlook is adding to pressure to cut the welfare rolls. Despite a decade of growth that has created 2.7m new jobs, the numbers claiming jobseeker's and lone-parent benefits have fallen only modestly, and those on incapacity benefit are virtually unchanged. Payments meant for workers injured in industrial accidents or worn out by hard labour now go to the stressed and

depressed, and to 500,000 under-35s.

Politicians are looking abroad for lessons. Much cited are America's 1996 reforms, which encouraged states to impose time limits on benefits and pay private companies and charities to help people find employment. One such company, America Works, recently offered its expertise to both big British parties.

The firm has found that getting welfare recipients into the rhythm of work by making them show up for a good part of the working week, coaching them for interviews and holding their hands through the early days of a new job are as successful as compulsion in reducing welfare rolls—suggesting that British politicians are thinking along the right lines. But it warns against a preoccupation with pre-job training, which often teaches the wrong skills and misses basic graces (such as time-keeping and not being cheeky to the boss) that many claimants lack. American employers, it seems, are keener on having a decent, low-hassle workforce than on subsidies for training or incentives to hire the jobless. And they co-operate with welfare-to-work programmes when they get it.

But British employers already have good workers on tap, thanks to the endless stream of eager east Europeans seeking jobs. Whether they can be persuaded to take on long-idle locals instead—even ones who have their hands held—is moot.

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Trafficking children

A twist in the tale

Jan 31st 2008 | SLOUGH, BERKSHIRE
From The Economist print edition

The police claim to have uncovered a child-trafficking ring. Have they?

Get article background

THE suburbs of Slough, an unremarkable satellite town west of London, don't look much like the back alleys of Dickens's "Oliver Twist". A Polish shop, a *Hajj* travel agent and a Somali centre dot the streets of Chalvey, one of its migrant-rich neighbourhoods. Yet inside the unkempt brick semis, the police claim to have discovered a latter-day Fagin's gang of child thieves. Officers raided 17 addresses on January 24th, discovering 68 Roma (gypsy) children of Romanian nationality, ten of whom they took into care. The young Artful Dodgers were said to have been trafficked to Britain by criminal gangs, who sent them on pickpocketing errands in the posher bits of London.

That is now less sure. This week it emerged that some of the children may actually have been living with their families; one alleged "Fagin" said that police had mistakenly confiscated his grandchildren. The police maintain that at least four of the children were "trafficked" to Britain to be exploited. But a week on from the raid, the only charges that have been brought are for immigration offences and theft of mobile phones. The press, which splashed the story when it broke, is undecided: what the *Times* described as a noble rescue, the *Daily Telegraph* on the same day called a botched police operation.

Why the confusion? The Roma themselves say the authorities are puzzled by their family arrangements, which, because it is common for children of different surnames to live with relatives who are not their parents, may look odd to British eyes. Cramming many people into tiny rooms also arouses suspicion, though it may be caused by nothing worse than poverty and ineligibility for council housing. Finally, Romanians' peculiar immigration status—they may come to Britain freely but may not take up unskilled work, as most other east Europeans can—makes begging and petty theft more likely. And there is a perverse incentive for children to claim to be parentless, because lone children qualify for benefits that would be denied were they in the care of a relation.

Allowing Romanians to work legitimately might clear up some of these problems, as well as making genuine exploitation easier to spot. But child-trafficking remains a grey area in law. Like most countries, Britain subscribes to a UN definition of people-trafficking, the three-part gist of which is that the perpetrator must have recruited or transported someone, using coercion or deception of some sort, for the purpose of exploitation. (Prostitution, domestic servitude and organ donation are some of the grisly fates itemised.) Child-trafficking is a bit simpler: since children are not legally responsible for their own decisions, a trafficker must merely be proved to have transported them for exploitation, with or without coercion.

This ought to make it easy to convict child-traffickers. But the legal system is lagging behind. Britain has no single law against trafficking, relying instead on a patchwork of sex and immigration offences. For the most part this suffices, but a report in June by CEOP, the government's child-exploitation taskforce, pointed out a loophole that remains for those under 18 who have been trafficked for non-sexual exploitation. To secure the conviction of their traffickers, prosecutors must prove that the child was requested or induced to take part in the exploitation—pickpocketing, for example—something that is all but impossible with very young children. Amendments are planned; until then, genuine Fagins may be able to slip away.

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Fiscal pathology

Failing the tests

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From The Economist print edition

Gordon Brown's past imprudence is catching up with him

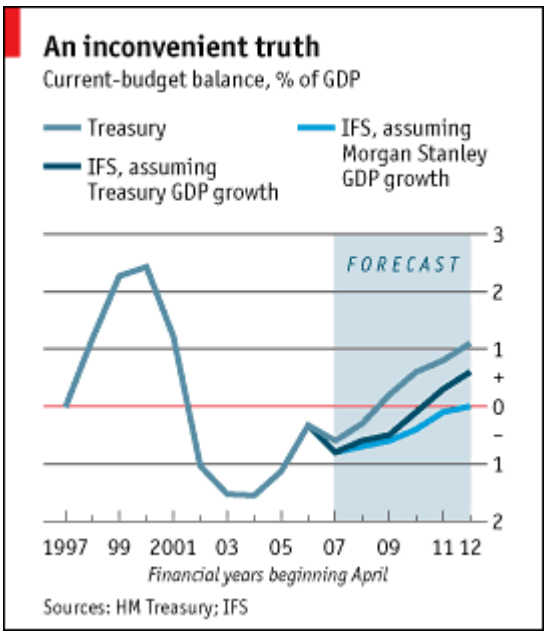
Gordon Brown

BRITAIN'S public finances, once gratifyingly healthy, are regaining their more familiar sickly aspect. Recent official numbers suggested that fiscal malaise was setting in. An independent diagnosis this week confirms that it is grave.

Wearing the white coats were researchers at the Institute for Fiscal Studies (IFS), a think-tank, which presented its annual budgetary review on January 30th. After much prodding and probing of the nation's finances, they concluded that the government will have to raise an extra £8 billion a year if it is to meet its two fiscal rules. Coming, as it does, after a decade of steady economic growth, the shortfall limits the scope for budgetary stimulus to offset an economic downturn now.

The first of the two fiscal rules, adopted by Gordon Brown when he became chancellor of the exchequer in 1997, is that the government should borrow only to invest. Measured over the ups and downs of an economic cycle, the current budget, which excludes net investment, must not be in the red. Big surpluses in Mr Brown's early years allowed him to declare that he had met this rule over the ten years that ended in 2006-07, though the current budget had by then long been in deficit. That glorious achievement was tainted, however, by changes in how the cycle was defined.

Thanks to this fiscal fudge, few take the rule seriously. Yet it is still supposed to guide policy. Alistair Darling, the chancellor since June, had to raise Mr Brown's borrowing forecasts in October. Even so, his projections showed the current budget moving from deficit into surplus in 2009-10, allowing the rule to be met over the new economic cycle (see chart).



The Treasury has been too optimistic in most of its fiscal forecasts since 2001, and this one seems no exception. The IFS thinks the chancellor will get less revenue than he is hoping for, especially from corporation tax. Using the same assumptions for GDP growth, the think-tank expects it to take two years longer for the budget to move into surplus.

But those economic assumptions now look too rosy as the credit squeeze takes hold and the housing market swoons. The Treasury predicted in October that the economy would grow by 2.0% in 2008-09 and by 2.75% in 2009-10. The central forecast of Morgan Stanley, a bank that worked with the IFS on the report, is for growth of 1.75% in the first year and 2.25% in the second, however. On this basis, the IFS does not envisage the current budget returning to balance until 2012-13.

Mr Brown's other fiscal rule was to keep net public debt below 40% of GDP. After falling to a low of 30% in 2001-02, the debt ratio has risen, but the Treasury thinks it will stay below the 40% limit over the next five years. Using the same economic assumptions, the IFS expects it to hit the ceiling in 2009-10 and carry on rising; on Morgan Stanley's main forecast, it would climb to 42% in 2009-10. The limit may in any case be broken earlier if government support for Northern Rock is counted (as it should be) as public debt.

If the fiscal rules mean anything, Mr Darling should swallow the bitter pill prescribed by the IFS and

announce tax rises worth £8 billion a year in his first budget, on March 12th, to take effect in 2009-10. But an election looms around then, so clever Treasury officials will find more ruses to disguise the wreckage of the rules—for example, by setting a higher debt ceiling for the new economic cycle. Financial markets have not yet punished Mr Brown for the loss of fiscal credibility. But his imprudence has left the Treasury with little leeway to bolster a weakening economy.

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Bagehot

Kindergarten cabinet

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From The Economist print edition

In defence of (some of) Gordon Brown's cabinet ministers

Illustration by Steve O'Brien

Gordon Brown

WITH its lurid food photos (never an encouraging sign) and an elusive apostrophe, Katies kebab shop in Peckham, south London, might not instantly appeal to all readers of *The Economist.* But with a little imagination it is easy to see how, to diners with shallow pockets, or after a pint or two at the Greyhound pub opposite, the chips and chilli sauce might taste as fine as the convivial Turkish owner boasts. How people feel about Katies, in other words, depends on mood and circumstance.

The same applies to a visit paid there by Jacqui Smith, the home secretary. For those who missed the tale—a whimsical but telling parable of the cabinet's current predicament—it went like this: after Ms Smith conceded to a newspaper that she would be wary of walking alone at night in parts of London, her aides are said to have revealed that she had, in fact, previously had a kebab at Katies. In Gordon Brown's summer honeymoon in Number 10, when both he and Ms Smith seemed admirably grown-up, her remarks might have been hailed as refreshingly frank, and the visit to Peckham as sensible fieldwork. Instead, her comment was received as a shocking admission of failure, and the mysterious jaunt as a stunt.

Perceptions of the entire cabinet, reshuffled last week, are similarly jaundiced. But its members, Bagehot contends, are more talented than they look, or have been made to look.

A family affair

So many Blairites and Brownites; some usefully new faces but enough old stagers; the first female home secretary: Mr Brown's first cabinet seemed an adept bit of balancing. After Peter Hain's resignation on January 24th forced him into a rejig, he promoted James Purnell and Andy Burnham, and gave Yvette Cooper a seat at the top table. Not everyone is impressed.

One common complaint is that the cabinet is now disturbingly incestuous. Several of its members are connected by education or an enthusiasm for football, others by blood (David and Ed Miliband are brothers) and Ms Cooper and Ed Balls by marriage. But it is not obviously undesirable for ministers to be friends, or previously acquainted by virtue of being clever. Another criticism is that the team is too

young: the three promoted cabinet ministers, and four others (out of 23 in total), are aged 40 or under. Most have little career experience beyond politics or parasitical professions such as think-tanking. They arguably don't have much experience inside politics either, having mostly and luxuriously worked in an era of comfortable Labour supremacy. The only barricades some have faced were outside the Millennium Dome on opening night.

The young 'uns respond that the Blair-Brown tussle was itself a pretty tough school—and that they have seen more government service than many incoming cabinet ministers. Perhaps some will indeed be found to have risen to the level of their own incompetence; it is too early to say. But the youngsters are by and large more impressive than the residual old hands. The chancellor, Alistair Darling, for example, has survived without trace in government for a decade; it would be hard to argue that he brings more charisma or clout to the cabinet table than, say, Mr Balls or the Milibands. Moreover, the cabinet as a whole emerges well from the two most relevant comparisons.

One is with Tony Blair's cabinets. The retirement of the so-called “big beasts”—Charles Clarke, John Reid and so on—of the Blair era is now widely lamented. But those same titans were once routinely, and in many cases justly, excoriated as dud technocrats and bumbling bullies. (A lesson of Mr Blair's tenure is that the time ministers are left in their jobs is a surer guarantee of quality than the time they have been on the planet.) The other important comparison is with the would-be government on the Tory front bench. Quick George Osborne, witty William Hague, clever and charming Michael Gove and bruising David Davis provide powerful back-up to David Cameron, their leader. Young themselves (for the most part), they have nonetheless been blooded in successive electoral calamities. But beyond them, the Tory team is mostly less sharp, and less enamoured of Cameroonian conservatism. That may be partly why voters are not embracing the Tories as fast as Mr Cameron would like.

Still, the cabinet does have a problem: its invisibility. And one reason for that is Mr Brown. However collegial he is or isn't in private (reports vary), he has eclipsed his team in public. He drags Mr Darling along to press conferences, but the chancellor looks less an equal than a puppet. He hogs announcements—on health policy, for example—that ought to be made by ministers. The strategy has been to market the government on Mr Brown's appeal alone (“Not flash—Just Gordon”, etc). It has backfired. Some of the ambitious youngsters would be entitled to feel that he has tarnished their “brand”, rather than vice versa.

But the main reason for the low profile is not Mr Brown's approach in the past seven months, but the fact that Labour has been in power for almost 11 years. In that time, a generation of Labour politicians has risen to ministerial office and drifted out of it; a new, relatively unknown one is replacing it. That longevity is also the cabinet's biggest strategic challenge: pledges to do more and better, even from fresh faces, are hard to sell to a public that is increasingly and inevitably bored and disappointed.

In Mr Brown's halcyon summer, Number 10 posted a clip of his first cabinet meeting as prime minister on YouTube. Surrounded by his underlings, he makes a lame joke about doing battle with his chancellor. Intended to seem jolly and optimistic, the clip is instead reminiscent of those tricksy interviews in which the cameras keep rolling just long enough to catch some private embarrassment—a shifty sideways glance or wiped-away tear. In this case, the smiles flatten and the tension seems palpable. Or, at least, that's how it looks now.

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Economist.com WORLD INTERNATIONAL

UN law

Coming up trumps

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The UN's little-known terrorist watchlist is alarmingly arbitrary and seductive. It faces a legal challenge in Europe

Illustration by Claudio Munoz

GUANTÁNAMO has become a byword for the sacrifice of civil liberties in America's “war on terror”. But there is another, rarely talked-about way in which potentially innocent people are severely punished, while being deprived of any right to hear or challenge the allegations against them. Worse, they stand even less chance of escaping this fate than they do of being released from Guantánamo Bay. The legal oubliette in question is the United Nations' terrorist watchlist.

Set up by the Security Council in 1999 at the behest of the United States, but greatly expanded after the September 2001 terrorist attacks, the so-called “consolidated list” includes 370 individuals and 112 outfits suspected of having links with the Taliban or al-Qaeda. All are subject to a world-wide freeze on their assets, save for basic living expenses, along with a total travel ban outside their country of residence.

Getting onto the list is relatively easy, requiring a unanimous vote by the Security Council's sanctions committee (identical in membership to the Council itself). Any UN member state can submit a name.

Getting off is a lot more difficult. Requests for delisting have to be made either directly to the sanctions committee or through the affected person's country of birth or residence, and the burden of proof lies with the petitioner. The petitioner has to convince the same people who previously held him to be guilty that he is innocent—a particularly onerous task when he has no access to the information that led to his inclusion on the list in the first place. In the list's eight-year history, only 11 people and 24 organisations have been removed.

Two cases now before the European Court of Justice could change this. One was brought by Sheikh Yassin Abdullah Kadi, a prominent Saudi businessman; the other by the al Barakaat International Foundation (based in Sweden, it is part of a big Somali organisation dealing with cross-border money transfers). Both have been on the UN's terrorist blacklist (and had all their assets frozen) for the past six years, even though no one has ever succeeded in bringing criminal charges against either of them.

Under Article 103 of the UN Charter, Security Council resolutions generally take precedence over all other laws, domestic and international. Only in cases involving *jus cogens*—the most fundamental principles of international law, such as the ban on torture or slavery—does this rule not apply. The Security Council

could not, for example, order genocide.

This supremacy of UN law was recently reaffirmed by the House of Lords, Britain's highest court, in a human-rights case brought by Hilal al-Jedda, a man of joint Iraqi-British nationality held by British forces in Iraq. He claimed that his detention violated his right to liberty under the European Convention on Human Rights. Britain countered that, as part of a multinational force authorised by the UN, its troops were entitled to take such action. In a unanimous ruling in December, the law lords agreed, declaring that Security Council resolutions trumped the convention.

But in a potentially ground-breaking “opinion” to the European Court of Justice in the al Barakaat case on January 23rd, Poiares Maduro, one of the court's eight independent “advocates-general” (with a rank equivalent to that of a judge), argued that the court cannot “turn its back on the fundamental values that lie at the basis of the [EU's] legal order and which it has the duty to protect.” Where those values were at stake, the court might have to annul Security Council measures, he said.

Mr Maduro also says that even when such measures were intended to suppress terrorism, this “should not inhibit the court from fulfilling its duty to preserve the rule of law”. In doing so, it would not, as a lower EU court had argued, be “trespassing into the domain of politics”, but “reaffirming the limits that the law imposes on certain political decisions”.

Although the prevention of international terrorism might sometimes justify restrictions on an individual's right to property, it did not remove the need to demonstrate why those measures were being applied to that particular person or entity. Delivering a similar opinion in Mr Kadi's case, he said that imposing sanctions with such “potentially devastating” consequences on someone who might be totally innocent was “anathema in a society that respects the rule of law”.

The Security Council's terrorist watchlist has already come under fire. The UN's own watchdog on human rights argues that if good reasons exist for imposing sanctions on someone, he should be prosecuted. The UN replies that it is not always possible to gain the necessary evidence to gain a conviction in court. The sanctions, it says, are intended to be “preventative” rather than punitive, aimed at stopping any potential future support for terrorism. It is the right to do that, without due process, that Mr Maduro is now challenging.

The EU has its own watchlist for suspected terrorists unrelated to the Taliban or al-Qaeda; it imposes an asset freeze (though not a travel ban) on 54 individuals and 48 groups. Anyone on the list must be approved by a unanimous vote by all 27 members of the EU's Council of Ministers. Unlike most of those on the UN's list, however, all must either have been convicted of a terror-related offence or be subject to prosecution. And all have a right to challenge their inclusion on the list—at national level, to the council or to the European Court of Justice.

Mr Maduro's opinion to the court marks the first substantive legal challenge to the fundamental assumption on which the UN's watchlist is based—namely that where world peace and security are at stake, virtually anything goes so long as it has the blessing of the world's great powers. An advocate-general's opinion is not, of course, the same as a ruling. The court still has to decide whether to accept Mr Maduro's advice. In the past, it has followed such opinions in about 80% of cases. But in potentially precedent-setting cases, such as those of Mr Kadi and al Barakaat, its reaction, expected by the summer, is much harder to predict. At the UN's headquarters in New York, the securocrats are increasingly twitchy.

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Economist.com WORLD INTERNATIONAL

Scientology

Fair game

Jan 31st 2008
From The Economist print edition

An online onslaught against Scientology

A VICIOUS cult run by cynical fraudsters, or a sincerely held religious belief persecuted by zealots? That is the long-standing row about Scientology, founded by the late science-fiction writer, L. Ron Hubbard. In some countries, such as Germany, the group is watched by the security services. In others, such as America and Australia, it has won charitable status as a religion.

Until now the fight could mostly be seen as one-sided. Scientology's lawyers are vigorous litigants. The group argues that its internal materials (which claim, among other things, that expensive courses of treatment can help rid people of infestation by alien souls from an extinct civilisation) are commercially confidential and protected by copyright. They react sharply to any perceived libel.

As a result, public critics of what they derisively term “$cientology” risk expensive legal battles. For example, a new unauthorised biography of Tom Cruise by a British author, Andrew Morton, contains detailed and highly critical material about the film star's involvement in Scientology. It is a bestseller in America but has not been published in Britain. The publisher, St Martin's Press, has even asked internet booksellers not to ship it to foreign customers. Though Scientology representatives vehemently deny breaking any laws, critics have claimed that they experience intensive harassment and intimidation.

Now Scientology is under attack from a group of internet activists known only as Anonymous. Organised from a Wikipedia-style website (editable by anyone) and through anonymous internet chat rooms, “Project Chanology”, as the initiative is known, presents no easy target for Scientology's lawyers. It is promoting cyberwarfare techniques normally associated with extortionists, spies and terrorists. Called “distributed denial of service attacks”, these typically involve using networks of infected computers to bombard the target's websites and servers with bogus requests for data, causing them to crash. Even governments find this troublesome.

Anonymous is also hoping to galvanise public opinion with a mass “real-world” protest outside every Scientology office worldwide on February 10th. But its best weapon may be ridicule. The group got going in reaction to efforts to ban an internal Scientology video of Mr Cruise that leaked onto the internet. The star appears to discuss his beliefs with a degree of incoherence and exaggeration that might lead some to question Scientology's effects on its adherents' sanity. A Scientology spokesman says it has been selectively edited. Several internet sites have taken it down after threats of lawsuits. But it keeps popping up.

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Malaria

Net benefits

Jan 31st 2008
From The Economist print edition

Giving bed nets and drugs away free may be the way to deal with malaria

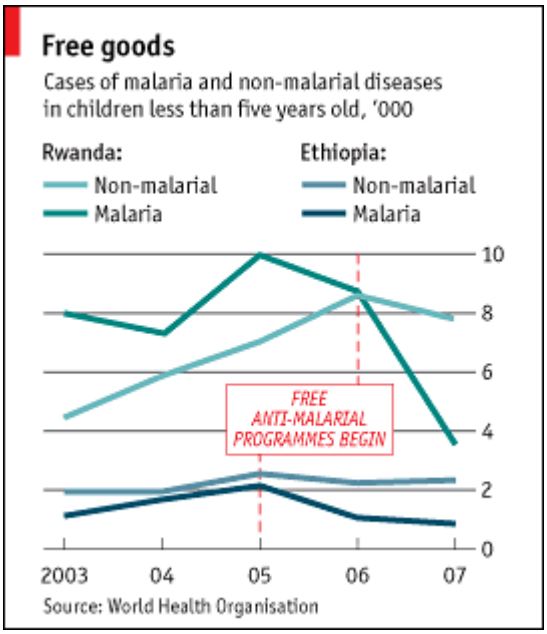
“FREE goods are worth what you pay for them” is the cynic's approach to the world, shared by hard-headed poverty-busters. Charging even a nominal price for things such as mosquito nets and condoms makes people take them more seriously, it is argued. Given away free, the nets may end up being used to catch fish rather than protecting sleeping people.

That does happen. Even so, a recent study in Kenya suggested providing malarial areas with large numbers of free bed nets brought better results than selling them. Now a new survey by the World Health Organisation (WHO), on behalf of the Global Fund to Fight AIDS, Tuberculosis and Malaria, has shown that the approach works well in other countries, too.

Unlike most big do-gooding outfits, the Global Fund is flexible and iconoclastic. It was one of the first international aid organisations to come up with the radical idea of seeing whether its interventions actually work. Since it consists of a small secretariat in Geneva and a few local offices, it lacks the scientific and managerial infrastructure to do this itself. So it subcontracts the job—in this case to Arata Kochi, the head of WHO's anti-malaria operation.

Dr Kochi and his team reviewed anti-malaria operations in Ethiopia, Ghana, Rwanda and Zambia, looking mainly at under-fives, who are most threatened by the disease. In Ethiopia, the amount of childhood malaria reported at clinics fell by 60% and the death rate halved within two years of the beginning of the mass-distribution programme. In Rwanda, things were even more spectacular: both cases and deaths dropped by two-thirds within a single year. In Zambia the fall in both was around a third. Only in Ghana were the data equivocal. Cases fell by an eighth and deaths by a third, but that was against a background of generally improving health in which the amelioration rates for malaria were worse than those for non-malarial illness and death. In other countries, the rate of malaria tracked the general disease rate until the programmes began, and then fell suddenly (see chart).

Giving away insecticide-impregnated nets free to anyone visiting a clinic (the nets stay potent for about five years) was not the only new thing about the operations. In all cases, the countries rolled out nationwide campaigns instead of relying on local ones. In many cases, they also gave away drugs based on artemisinin, a substance to which the malarial parasite has yet to develop widespread resistance.



Nets and artemisinin are two planks of malaria control. The third is to spray the inside of people's houses with DDT, to kill female mosquitoes when they settle to digest their blood meals. The objective is to achieve 80% take-up in each village. At that point, the cycle of transmission from mosquito to human to mosquito is broken in a way similar to the action of a vaccine; this stops the spread of the disease, and thus protects everyone.

Based on the new results, Dr Kochi reckons that a five-year campaign costing about $10 billion would be enough to bring malaria under control in most of Africa, reducing the death rate to a matter of thousands a year, rather than the million or more who die now.

Eliminating malaria altogether, though, would be a far harder task, involving destroying mosquitoes in

the remaining pockets of infection. That is controversial: some—not least Dr Kochi—see it as a dangerous distraction until the easier job of bringing the disease under control is completed. Others want to aim straight away for elimination. In the long run, that should surely be the objective. But, as the old saying has it, the best can often turn out to be the enemy of the good. And the good now looks to be in sight.

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Telex

A faint ping

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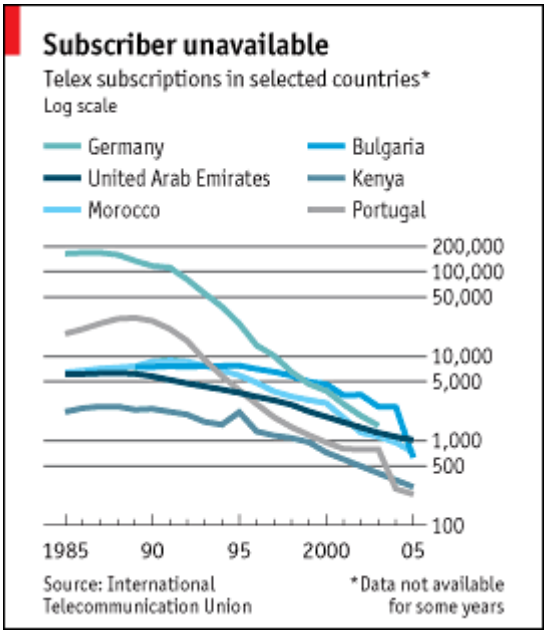
An ancestor of e-mail lives on

LIKE slide-rules, steam engines and carbon paper, the telex machine, once ubiquitous and indispensable, has vanished from sight. But not, quite, from existence. As younger readers may need reminding, or informing, the telex was what would nowadays be called a hard-wired, low-bandwidth, point-to-point messaging system. At speeds of around one-millionth of that of a modern broadband connection, it sent data chugging along dedicated networks to clunky terminals.

In its time, telex was a huge improvement on the international telegram system, which could charge the modern equivalent of several dollars per word. It was often better than making international phone calls, which were cumbersome, crackly and costly. It was on telex systems that today's electronic data interchange developed. Telex starred in the huge logistics effort for the airlift that supplied West Berlin during the Soviet blockade of 1948.

It would be easy to imagine that newer technology puts paid to such systems. But their death throes are oddly slow. Three countries, Japan, Kuwait and Italy, still maintain the old-fashioned international telegrams. And the internet has not yet killed off the telex. It has certainly sent traffic tumbling (see chart). In March Britain's BT will be the latest big company to cease offering telex services. “All good things come to an end,” says a spokesman. Britain will then join around 30 countries including Austria, Germany and Russia that no longer provide telex through their national telecoms operators.



But that clears the way for nimble, low-cost competitors. These have turned round the technology. As well as maintaining the old-fashioned service involving terminals and dedicated lines, they provide telex services both over phone lines and over the internet—in effect, making it a secure and ultra-reliable variant of e-mail. One, SwissTelex, is a spin-off from the Swiss national telecoms operator that offers international telex services and has taken over BT's network. Another is EasyLink, based in America, which provides a service for Dutch, Belgian and Japanese subscribers.

Many of the remaining customers are banks. Telexes, unlike ordinary e-mails, are legally valid documents (being to all intents and purposes impossible to fake). “The telex network is closed—you can't get in unless you are part of the club,” says Peter MacLaverty of SwissTelex.

Small financial institutions not hooked up to the main international money-transfer system, SWIFT, find telexes a cost-effective alternative. And with no server to go down, the telex system is robust. Big banks like that: for them back-up systems are vital, and the cost of keeping a telex is trivial.

Euroclear, the world's largest settlement system for international financial markets, maintains 184 telex accounts for 50 out of its 1,375 clients. It sends up to 800 telexes a day, mostly as confirmation for transactions. The system is overseen by Danny Bogaerts, a communications manager who was told when he joined the company in 1975 not to learn about telexes because they were soon going to be obsolete. “You can laugh about it,” he admits. “It is old-fashioned—but it works.” The second big customer group is at sea. Ocean-going ships are still legally required to have a telex on board—chiefly for SOS messages.

Even its fans do not pretend that telex is a technology with a bright future. Euroclear, for example, will

start decommissioning its telex system in 2010 when it introduces new software. “I'm surprised it has lasted as long as it has,” says Mr MacLaverty. “What we aim to do is to be the last man standing,” says Eva Allen of EasyLink. “Who will send the last telex? Possibly me.”

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The internet in China

Alternative reality

Jan 31st 2008 | HONG KONG
From The Economist print edition

AP

China will soon boast more internet users than any other country. But usage patterns inside China are different from those elsewhere

ONE of the more striking end-of-year statistics pumped out recently by the Chinese government was an update on the number of internet users in the country, which had reached 210m. It is a staggering figure, up by more than 50% on the previous year and more than three times the number for India, the emerging Asian giant with which China is most often compared. Within a few months, according to Morgan Stanley, an investment bank, China will have more internet users than America, the current leader. And because the proportion of the population using the internet is so low, at just 16%, rapid growth is likely to continue for some time.

That such a big, increasingly wealthy and technologically adept country has embraced the internet is no surprise, but it has done so in a very different way from other countries. That is in large part the result of the government's historically repressive approach towards information and entertainment. News is censored, television is controlled by the state, and bookshops and cinemas, shuttered during the Cultural Revolution, are still scarce.

The internet itself is also tightly controlled. Access to many foreign websites (such as Wikipedia) is restricted, and Google's Chinese site filters its results to exclude politically sensitive material. New rules governing online video came into force this week. Electronic retailing is in its infancy, thanks to an unwieldy government-controlled payment system, so most shopping is still done in person. The attempt by eBay, the world's leading online auction site, to enter the Chinese market was a flop. Alibaba, a site often described as the eBay of China, is in fact more an electronic yellow pages, helping buyers find sellers, than an online auction room.

The Chinese way

Yet it is all these limitations, paradoxically, that make the internet so popular in China. In the West online activities have transformed existing businesses and created new ones; in China, by contrast, the internet fills gaps and provides what is unavailable elsewhere, particularly for young people. More than 70% of Chinese internet users are under 30, precisely the opposite of America, and there is enormous pent-up demand for entertainment, amusement and social interaction, says Richard Ji, an analyst at Morgan Stanley. Rich rewards await those entrepreneurial internet companies able to meet that demand and establish themselves in the market: operating margins for leading internet firms are 28% in China, compared with 15% in America. And internet companies' share prices have shot up, with their collective

market capitalisation nearly doubling every year since 2003 to reach over $50 billion today.

So what is the internet used for in China? Its most obvious use is to distribute free pirated films, television shows and music. Even though China's censors do an excellent job of restricting access to content that might cause political problems, they are strangely unable to stem the flow of pirated foreign media. On December 30th an appeals court in Beijing ruled in favour of Baidu, China's leading search engine, which had been accused by the world's big record companies of copyright violation by providing links to pirated music files. Even so, piracy is starting to worry the government, not least because the availability of free foreign content is holding back the development of the domestic media industry. But for the time being, the free-for-all continues.

When it comes to making money online, the biggest market involves the delivery of mobile-internet content to mobile phones. With over half a billion mobile-phone users, China has more subscribers than America, Japan, Germany and Britain combined, and more than half of them use their phones to buy ringtones, jokes and pictures from mobile-internet portals such as KongZhong and Tom Online. Each download costs a few cents, most of which goes to the portal, but the mobile operators then make money as subscribers send jokes and pictures to each other. It all sounds trivial, but a few cents here and there multiplied by hundreds of millions of users soon add up. The ringtone from a hit song, “Mice Love Rice”, generated over $10m in sales in 2005, for example.

Another big field is online multiplayer games, which have become so popular that the government has started to worry about their impact on adults' productivity and children's education. Import restrictions and fear of piracy mean that the big foreign console-makers—Sony, Nintendo and Microsoft—have not made much headway in China. Instead, a different model has emerged, based around PC games played online. Generally the game itself is given away, so piracy is not a problem, but players pay a subscription to play, and may also buy in-game add-ons such as accessories for their characters. Big providers such as NetEase and Shanda have millions of customers for games such as “Fantasy Westward Journey”, a cartoon game for children, and “World of Legend”, for teenagers and adults.

Although there are tight constraints on the provision of hard news, internet sites such as Sina and Sohu provide a steady supply of gossip, features, dabs of propaganda and slightly salacious stories and photos, and are constantly testing the boundaries of what is permissible. Video of America's professional basketball league and English football games is also popular, and can be packaged with streaming advertisements, another emerging business in China.

The most dynamic area, and the hardest for outsiders to understand, is that of online communities, many of which are run by a company named Tencent. Its site offers an instant-messaging service and a MySpace-like social networking site, among other things. In each case the basic services are free, but users pay for add-ons (such as new backgrounds for their home-pages or more storage space). Often, says Mr Ji, the members of these communities are people who, because of the single-child policy, have no siblings and are searching for virtual friendships. For them and for many users in China, the internet is not truly a worldwide web: it is only as wide as China. But China's internet community is evidently a world unto itself.

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Boeing v Airbus

This time it's war

Jan 31st 2008
From The Economist print edition

The aviation giants battle to supply America's air force with a new tanker

Get article background

THE stakes are as high as the aircraft's cruising altitude. The order will be the largest ever for wide-body planes. It is also the second-biggest military-procurement contract of all time, eventually worth more than $100 billion. On February 13th the United States Air Force (USAF) will decide which of two contenders—Boeing or a consortium of Northrop Grumman and EADS—will supply an initial tranche of 179 aerial-refuelling tankers as it starts to replace its 530 elderly KC-135 aircraft. Its decision will be made public later this month.

The air force needs a new tanker urgently. The KC-135, a cousin of the Boeing 707, entered service in the Eisenhower era and is near the end of its design life. A previous attempt to order a replacement ended five years ago in ignominy for both the air force and Boeing. A $23.5 billion contract to lease new tankers based on the Boeing 767 was revoked when a congressional investigation (led by John McCain) unearthed criminal collusion between the aerospace firm and an air-force official. The USAF was accused of tailoring its requirements to ensure that Boeing, desperate to keep the production line for its ageing 767 running, was the sole bidder.

Given the air force's earlier preference for the 767, it is tempting to dismiss the chances of the Northrop-EADS partnership, which is offering a tanker version of the Airbus A330. But the political pressure for a genuine competition has made it harder (though not impossible) for Boeing to play the patriotism card. As there are only two makers of commercial jets that can meet the USAF's requirements, there would have been no contest had EADS, the Franco-German aerospace company that owns Airbus, not been convinced that it was in with a chance. But with the contest reaching its final stages, the attempts by both sides to prove that theirs is the better plane for the job have become increasingly acrimonious.

Mark McGraw, Boeing's head of tanker programmes, argues that its KC-767 fits the air force's specification more closely than the rival KC-30. “We let the air force requirement drive the solution,” he says. “They asked the air force to change its requirements to fit their plane.” Much of Boeing's case against the KC-30 comes down to size. Mr McGraw says Boeing could have based its design on the bigger 777, but chose the 767 because it takes up less space on the ground, so more aircraft can be placed near the battlefield.

Boeing also says its plane can take off from shorter runways, uses less fuel than its rival and will cost $14 billion less to operate over 40 years. It concedes that the KC-30 can carry more cargo and passengers along with its fuel load, but says that the contest should not be over “secondary attributes” that the air force might not use.

Inevitably, Northrop-EADS rejects Boeing's arguments. According to Northrop's Marc Lindsley, the bigger KC-30 can stay in the air longer and offload fuel 30% faster than its rival, which more than compensates for its higher fuel consumption. He contests Boeing's claim that the KC-767 can operate from shorter runways. With a similar fuel load the KC-30 can take off from a 6,100-foot runway compared with the 8,000 feet needed by the Boeing, he says. Based on a study of five mission scenarios specified by the air force, Northrop calculates that its plane has a “fleet effectiveness value” (FEV) of 1.62 compared with its rival's 1.35 (the scale is calibrated to give the KC-135 an FEV of 1). Boeing has not published its own FEV estimates.

Mr Lindsley describes the KC-767 as the “Frankentanker” because it will be based on a new combination of elements from three variants of the 767. By contrast, he says, the KC-30 is a much less risky design, since it is already flying and a version of the plane will enter service with the Australian Air Force next year.

Northrop has won backing from three air commanders who respectively ran operations in the first Gulf war in 1991, Bosnia in 1995 and Kosovo in 1999. In a recent *Air Force Times* article they said that larger tankers offer greater flexibility, can deliver more fuel per sortie and do not need to be kept closer to the battlefield than is “militarily prudent”. They conclude: “You can never have enough gas forward in the air.”

Amid the fog of claim and counter-claim, there is little doubt that the KC-30 is the more capable aircraft. But whatever the air force decides, Congress will have the last word—and there its prospects look fairly bleak. More than 60% of the value of the KC-30 would be sourced in America, and EADS would also build commercial freighters on the KC-30 assembly line in Mobile, Alabama. But Boeing's proposal would provide more jobs for Americans.

The fact that Democrats are now calling the shots in both houses in Congress also plays to Boeing's advantage. Patty Murray, a senator from Washington, Boeing's home state, makes it clear she will use a simmering row between Airbus and Boeing at the World Trade Organisation to knock the KC-30 out of the sky. Says the flag-waving Mrs Murray: “American taxpayers should not reward a company that has spent decades hurting American workers, and we should not turn a critical military contract over to a foreign company that is unfairly supported and subsidised by foreign powers.”

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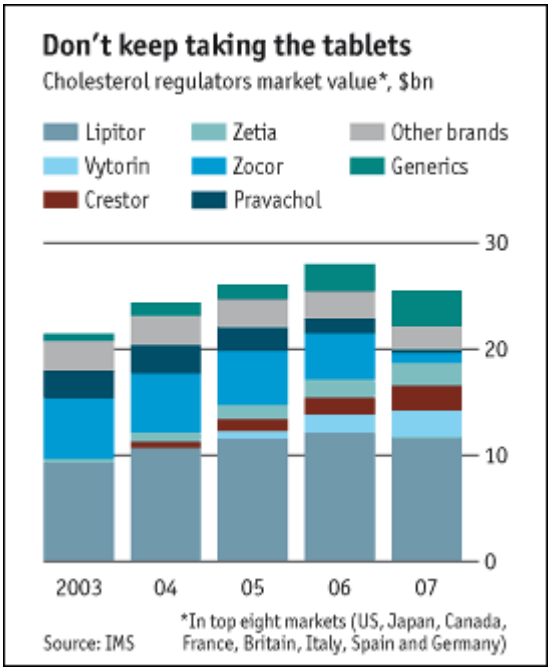
Pharmaceuticals

Shock to the system

Jan 31st 2008 | NEW YORK
From The Economist print edition

Cholesterol drugs are under attack



"I SEE profound consequences arising from this," says Steven Nissen of the Cleveland Clinic, an American research hospital. Dr Nissen, a leading cardiologist, is up in arms over the way Merck and Schering-Plough, two American pharmaceutical giants, have handled a clinical trial of Vytorin, a blockbuster anti-cholesterol drug produced jointly by the two firms. Could this controversy upend the $25 billion cholesterol-fighting industry?

For years, the drugs of choice in combating heart disease have been statins such as Pfizer's Lipitor and AstraZeneca's Crestor. Concerned that the patent for its own statin, Zocor, was due to expire in 2006, Merck found a clever way to rejuvenate its franchise. It combined Zocor with Zetia, a cholesterol drug developed by Schering-Plough, to create Vytorin. (Statins reduce the formation of so-called "bad cholesterol", or LDL, in the liver; Zetia reduces its absorption.) But the Vytorin study, completed nearly two years ago and released only in January, found that on one important measure, the pricey branded drug was no more effective than the generic version of Zocor on its own, which costs one-third as much.

Merck and Schering-Plough insist they have done nothing wrong, and are adamant that Vytorin remains an important drug. On January 25th America's Food and Drug Administration (FDA) said it would scrutinise the study's results over the next eight months. A committee of the House of Representatives is also reviewing the handling of the study. Andrew Cuomo, New York's attorney-general, launched his own investigation on January 26th. His office will examine whether senior executives engaged in insider trading after learning of the results of the study, and whether Vytorin's lavish marketing campaign, which continued to run after the study was completed, violated the state's laws on false advertising claims. Meanwhile, several class-action suits have been filed in New Jersey, the home state of both pharmaceutical firms.

These legal and political troubles for Merck and Schering-Plough have been accompanied by a frenzy of negative media coverage and a public outcry over Vytorin, a popular drug which was prescribed 22m times in America last year, raising wider questions for the industry. Some are even challenging the scientific orthodoxy underpinning anti-cholesterol drugs, which maintains that reducing the level of LDL cuts the risk of heart disease.

Viren Mehta, an industry expert, calculates that global sales of Vytorin and Zetia will fall by 10% in 2008 and remain flat until 2011, when a more detailed study of Vytorin will be completed. Sales of Lipitor and other statins unrelated to the Vytorin study have already been hit. But John Boris of Bear Sterns, an investment bank, reckons this is just a temporary setback caused by irresponsible media reports, and that sales will pick up again before long.

It is probably too soon to assess the damage to Vytorin. If doctors and patients grow skittish and stick with plain old statins instead, as they are now doing, that could deal a big blow to its prospects. Roger Blumenthal of Johns Hopkins University says Vytorin should not be tried as the first anti-cholesterol remedy for new patients: statins should. Only if patients reach the maximum tolerable dose of statins, or face unbearable side effects, should they try Vytorin. If that advice were really followed, however, it would wipe out much of the drug's future earnings, because some 40-45% of doctors, Mr Boris estimates, prescribe Vytorin right away as a “front line” therapy. Daniel Jones, head of the American Heart Association, blames the aggressive marketing tactics of drug companies for pushing doctors into prescribing Vytorin in the first instance.

Vytorin may yet have a bright future as a targeted remedy for a much smaller population group, rather than as a blockbuster. And even Dr Nissen, a leading critic of Vytorin, concedes that those claiming that all cholesterol science is bunk are going too far; he thinks statins, at least, have a bright future. The lasting effect of the Vytorin saga, he suggests, may be to change the way that drug trials are conducted. At the moment the FDA very rarely asks companies to conduct large-scale follow-up trials of new drugs after launch, and even when it does, its requests are often ignored. In future, regulators are more likely to insist on such trials—and on the timely disclosure of their results. As Merck and Schering-Plough are discovering, sunlight can be a powerful disinfectant.

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Twenty20

Jiminy cricket!

Jan 31st 2008 | DELHI
From The Economist print edition

India's cricket board makes a cool billion dollars for doing not much

AS THE custodian of a revered national sport, the Board of Control for Cricket in India (BCCI) has a poor record. India's domestic competitions are ignored. Stadiums are crumbling. There are few facilities for the millions of cricket-mad poor. This week, surprising no one, the national team—representing a billion-plus Indians—suffered a series defeat to Australia (population: 20m).

But when it comes to making money, the BCCI, which claims a monopoly on cricket in India, does much better. On January 14th it said it had sold broadcasting rights to a new domestic competition, the Indian Premier League (IPL)—based on a new, shortened and wildly popular form of cricket called Twenty20—for $1 billion to a consortium led by Sony Television Network and World Sports Group, a Singaporean firm. On January 24th the BCCI then said it had sold eight ten-year franchises for IPL teams for a total of $723m.

With players earning up to $500,000 for a six-week tournament, the IPL will be by far the richest domestic cricketing event. Team owners will also prosper. Among them are several Indian industrialists, including Mukesh Ambani of Reliance Industries, India's biggest private company, who has snapped up the costliest franchise, in Mumbai, for $111m. Bollywood is also represented: its biggest star, Shah Rukh Khan, belongs to a winning consortium in Kolkata.

Most of the franchise-holders will recoup their initial outlay through a guaranteed share in the broadcasting loot. They will have other revenues—for example, from shirt sponsorship—to set against players' salaries and other costs. For an industrialist team-owner looking to associate his brand with the nation's single shared obsession, this looks like a bargain. It is certainly a marketing coup for Vijay Mallya, a flamboyant brewer, airline owner and now owner of the Bangalore team franchise—for it is illegal to advertise alcoholic drinks in India.

Owners of less fashionable franchises could find themselves on a stickier wicket. There is no doubt that Twenty20—a three-hour caricature of an ancient and subtle game—goes down well with Indians. Millions watched their national team beat Pakistan to win the inaugural Twenty20 world tournament in September. Yet it is not clear that a domestic Twenty20 competition will excite the same passions. That will not especially trouble the BCCI. Even after dishing out some broadcasting revenue, it will have earned itself over $1 billion for doing remarkably little. What will it do with the money?

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Cocoa farming

Fair enough?

Jan 31st 2008
From The Economist print edition

Cadbury hopes to secure its cocoa supply with a new scheme

TIMES have not been sweet lately for Cadbury Schweppes, the world's biggest confectioner by sales. Nelson Peltz, an American activist investor, is waging a campaign for more influence over the management of the British company. Prices for raw materials are at record highs. Policymakers are stepping up their campaigns to warn consumers about the dangers of obesity. And Cadbury is uncertain about how to proceed with its plan to demerge its fizzy-drinks business, given the turbulence in the financial markets.

So the company's announcement of its “Cadbury Cocoa Partnership” on January 28th provided a helpful distraction from such problems. Cadbury will spend £44m ($87m) over ten years to finance the partnership, starting with a £1m investment in a seed fund this year, and increasing to £5m a year from 2010. The aim of the venture is to show cocoa farmers how to increase yields using fertilisers and by working with each other. It will also help them to find additional sources of income by encouraging them to plant red peppers and mangoes, which can grow beneath cocoa trees, and coconuts, which can grow above them. Moreover, Cadbury has commissioned 850 water wells, serving 150 to 200 people each, which will give women and children liberated from water-fetching duties time to do other things. It intends to finance schools, teachers and libraries.

Is there another motive for the ostensibly philanthropic venture? Without cocoa supplies from Ghana, Cadbury would be in big trouble. The west African country provides all of the cocoa for Cadbury's British operations and 70% of its worldwide supply. Cadbury says Ghanaian high-quality cocoa gives Dairy Milk, Creme Egg and other Cadbury treats their distinctive taste. It buys one-tenth of the crop produced in Ghana, which is the second-biggest producer after Côte d'Ivoire.

Alarm bells started to ring at the firm's headquarters when a Cadbury-financed study by the University of Sussex and the University of Accra found that the average production of a cocoa farmer had dropped to 40% of potential yield, and that the children of cocoa farmers did not want to work in the family business any more. Ghanaian farmers have six children on average and farm tiny plots of land of around two hectares. Some have annual incomes of as little as £450.

So Cadbury decided to do something that it hopes will secure its supply—and make it look virtuous. It could have signed up to Fairtrade, an international social movement that promotes the payment of above-market prices to producers of agricultural commodities in developing countries by setting a floor price, with an additional premium that goes to farmers for reinvestment and social projects. “But we found that productivity, not price, was the problem,” says Alex Cole of Cadbury. Ghanaian cocoa trades at 10% above the average world price of £1,176 per tonne. So Cadbury devised a scheme of its own that is similar to Fairtrade in some respects, but gives it greater flexibility over the terms. (Cadbury does use Fairtrade cocoa from Belize for Green & Black's “Maya Gold”, a niche chocolate brand.)

Other firms have done similar things. Starbucks has a scheme called CAFE through which the coffee-house chain encourages farmers to improve quality and supports social projects. (It also buys some coffee on Fairtrade terms.) Mars, the biggest American chocolate-maker, does not sell any Fairtrade products in spite of loud clamouring from campaigners, but last year pledged $4.5m over three years for a scheme to improve cocoa farming in west Africa, run in partnership with four non-governmental organisations and a development agency.

This week Fairtrade campaigners gave Cadbury's scheme a guarded welcome. “We welcome Cadbury's initiative to support Ghanaian cocoa farmers and their communities, and we will be looking to the company to ensure that principles of sustainable production and fair trade are embedded at the heart of their initiative,” says Barbara Crowther of the Fairtrade Foundation in London.

Fairtrade and large corporations do not sit naturally together. Fairtrade's price-adjustment mechanism is intended to insulate small producers from volatile commodity markets and the free-trading, no-holds-barred capitalism that multinational companies espouse. But firms are finding ways to improve the lot of small farmers, and burnish their own reputations, without signing up to Fairtrade's rules. Are such “Fairtrade lite” strategies a rejection of Fairtrade's approach—or are they a backhanded compliment?

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Electricity in South Africa

The dark ages

Jan 31st 2008 | JOHANNESBURG
From The Economist print edition

South Africa's power crisis is having wider repercussions

AFP

So much for power to the people

Get article background

AT THE big Sandton mall in northern Johannesburg, idle shoppers stroll in darkness. They have been caught in one of the many blackouts that have plagued South Africa for three weeks. Shops are closed, unable to open their tills or process credit cards. Ice-cream shops watch their merchandise dissolve; food stalls are unable to offer coffee or anything hot to eat. In Cape Town a power cut trapped tourists in the cable car that goes up Table Mountain, and in Pretoria angry commuters whose trains stopped running set them on fire. In Johannesburg, which is congested at the best of times, the roads become gridlocked when the traffic lights go out.

Most shocking of all, the country's largest gold, platinum, coal and diamond producers shut down their underground mines on January 25th, after being told that their electricity supply could not be guaranteed. Five days later, having been promised a stable supply, they resumed production. But they will have to limit their power consumption to 90% of the usual level. On January 29th the authorities said power cuts and rationing would continue until July.

The strange thing is that, until a few years ago, South Africa was producing more electricity than it needed. The apartheid regime, obsessed with self-sufficiency, went on a power-station building binge in the 1970s and 1980s. A few unneeded power stations were even mothballed. South Africa has long taken abundant, low-cost electricity—some of the cheapest in the world, thanks to the country's huge coal reserves—for granted. This makes the current mess particularly galling—and all the more so because it could easily have been avoided.

The government knew a decade ago that supply would run short in around 2007. Because of a successful electrification programme and healthy economic growth, power demand was catching up fast with a capacity that had not increased much since the 1980s. But the government got caught up in a policy debate about the appropriate role for the private sector in electricity generation, so it was only in 2004 that Eskom, the state-owned utility that generates 95% of the country's electricity, got permission to start building again. It is now busy constructing new stations and dusting off those that were mothballed, which should add another 17,000 megawatts by 2014. But frustrated South Africans have been warned that periods of occasional blackouts, euphemistically known as “load shedding”, will be a fact of life for at least another five years.

Thanks to growing demand and rising equipment prices, Eskom's projected investment over the next five years has ballooned to about 300 billion rand ($41 billion). To foot the bill, it plans to borrow and to slap double-digit price increases on consumers. But credit-rating agencies are talking about downgrading the company, which would make borrowing more expensive. So Eskom has asked the government to help by providing fresh capital or credit guarantees. The government, for its part, wants private firms to provide 30% of South Africa's new electricity capacity. But only one private project is under way so far. After much delay a consortium led by AES, an American energy company, won a tender to build two plants that will supply about 1,000 megawatts. If all goes well they should be running late next year.

In the meantime, the reserve margin—the excess of generation capacity over peak demand—has shrunk to about 8%, compared with the international standard of at least 15%. This is too little to cope with maintenance or breakdowns, which are on the rise since the power plants are being run too hard. Questions are being asked about Eskom's ability to maintain its power plants properly and repair them quickly. At the moment 20% of its generation capacity is unavailable because of maintenance or repair work, which is why Eskom has had to start rationing power. Until new power plants become available, South Africans will have to cut back their electricity consumption. The newspapers are full of power-saving tips.

The government says with a straight face that the economy, which grew by 5% last year, will not be affected. But that is hard to believe. Mike Schussler of T-Sec, a stockbroker, reckons that about 600m rand a day of export revenues were lost when the mines stopped work. Large, power-hungry industrial projects, such as the expansion and construction of aluminium smelters by BHP Billiton and Rio Tinto, need guaranteed electricity supplies in order to go ahead. Small businesses, already hit by rising interest rates, cannot afford generators and are struggling to cope with power cuts. Farmers are losing perishable products when their fridges stop working. According to Azar Jammine of Econometrix, a consultancy, the economy is unlikely to grow by any more than 3% this year, a far cry from the 6% the government says is needed to halve unemployment by 2014.

The impact is also felt beyond South Africa's borders. Eskom is rationing the electricity it exports to Mozambique, Zimbabwe, Namibia and Swaziland. The interruption of mining has pushed up the prices of gold and platinum. The crisis is likely to affect global platinum markets, where supply has been tight for a few years, particularly: South Africa produces over 75% of the world's supply. Carmakers, which buy over half of global platinum production for use in catalytic converters, must be praying South Africa will soon emerge from the darkness.

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Face value

The testing of long-term Eddie

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Once dubbed the next Warren Buffett, Eddie Lampert is now being well and truly buffeted

New York Times

EDDIE LAMPERT has endured worse days than these. After all, it is only five years since the billionaire investor was kidnapped in the garage of his office in leafy Greenwich, Connecticut, and spent a weekend tied up in a motel bath-tub before somehow talking his way to freedom. But as far as his investments are concerned, things have never been tougher for a man who has taken home $1 billion a year on two occasions, become the richest man in Connecticut and prompted comparisons to no less an investor than the Sage of Omaha, Warren Buffett.

For months there has been talk of deepening problems at Sears, a giant retailer of which Mr Lampert is the chairman and largest shareholder. Several hedge funds, once seen as Mr Lampert's acolytes, have sold their shares. Another of his big investments, in Citigroup, has plunged in value. In 2007 his investment firm, ESL Holdings, turned in its worst performance since he created it in 1988, reportedly losing 25% of its value. The media, which not all that long ago lionised him, have turned hostile, describing his actions at Sears as “rearranging the deckchairs on the *Titanic*”, asking if he has “lost his Midas Touch”, naming him “worst boss of the year” and even suggesting that his difficulties indicate impending trouble for dealmakers everywhere. The latest piece of bad news came on January 28th when, days after news leaked of a big restructuring at Sears, it was announced that Mr Lampert had sacked its chief executive of less than three years, Aylwin Lewis.

It is in times of adversity that the truly great long-term investor earns his legendary status, by keeping his head while everyone else is losing theirs. That was certainly true of Mr Buffett, who has been falsely accused of losing his Midas Touch on several occasions—most recently during the dotcom bubble, when he was ridiculed as an out-of-touch old has-been for his adamant refusal to buy hot internet shares. He was proved right, of course. Will Mr Lampert similarly have the last laugh?

Still only 45, he fell in love with investing aged ten at his grandmother's knee, discussing her shareholdings. When he was 14, the sudden death of his father apparently gave him the impetus to get into Yale and to thrive there. He worked as a researcher for James Tobin, a Nobel laureate in economics, became president of Phi Beta Kappa (an organisation with the motto “the love of learning is the guide of life”) and was admitted to the secretive Order of Skull and Bones. After graduating he joined Goldman Sachs and worked for Robert Rubin, later treasury secretary. When Mr Lampert said he wanted to quit, Mr Rubin told him he was giving up a golden career.

Mr Lampert ignored him, and started ESL with $28m in seed capital and a plan to make long-term investments in temporarily undervalued companies. From the start, investors in ESL were required to lock up their money for five years, so that Mr Lampert could focus safely on the long term—unlike the hedge-fund managers with whom he is often bracketed, who typically have a one-year lock-up and thus

a more short-term approach to investing. Mr Lampert had begun reading Mr Buffett's writings when at Goldman, and taught himself his idol's “value investing” philosophy by studying his greatest deals in forensic detail. The year after starting ESL he flew to Omaha for a 90-minute meeting with Mr Buffett in which he bombarded the Sage with questions about investing.

Yet there is one crucial philosophical difference between Mr Lampert and his hero. Mr Buffett is known for being hands-off in his dealings with the firms in which he invests; he buys companies that are well run but cheap, because they are temporarily out of fashion with other investors. Mr Lampert, by contrast, is happy to get his hands dirty by trying to improve companies that are undervalued because they are poorly run. That is the approach he took at the firms that became his first great successes—Autozone, a car-parts retailer, and AutoNation, a network of car dealers. It is what he is now trying to do at Sears, which he merged in 2005 with Kmart, another big retailer, which he had taken out of bankruptcy in 2003.

Mr Lampert's critics fall into two main camps: those who see Sears as inevitably doomed to go the way of the *Titanic*, and those who think he has made matters worse by micro-managing the company and starving it of capital. Mr Lampert readily admits mistakes, such as investing on the assumption that consumer demand would rebound in 2007 after softening in late 2006, and trying some things at Sears that have failed. He says there is no magic bullet. Yet he denies micro-managing, insisting that critics have misconstrued his attempts to understand the details of the firm's operations. He insists on using capital carefully, but says this is not at the expense of investment that would have made a difference. “Sears hasn't been capital constrained, but idea and market opportunity constrained,” he says. His strategy has paid off in some respects by making Sears more profitable and giving it a stronger balance sheet, though sales have fallen.

It could be worse

The criticism would be easier to understand, he says, “if we were the only ones struggling, and everyone else was doing well.” But whilst Sears' share price has tumbled by nearly half since last summer, the shares of rivals such as J.C. Penney and Macy's have also plunged. And unlike them, Sears' shares are still worth ten times what they were when Mr Lampert invested in 2003.

These are all fair points, though judging by the steady stream of bad news about the American economy, things may get a lot worse for Sears, and for Mr Lampert's reputation, before they get better. Yet, as a long-term investor, he has time on his side—and it is his money, more than anyone else's, that is on the line. “Adversity has made me stronger in my business and personal life,” he says. “I don't doubt what we are trying to do.”

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Unilever and emerging markets

The legacy that got left on the shelf

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The world's second-biggest consumer-goods firm is finally beginning to make the most of the advantage it was handed in emerging economies

Landov

WHEN a consumer-goods company casts around for the best growth prospects, rarely does anything look more promising than emerging economies. These markets are growing so rapidly that within just two years they will account for half of all the world's consumer spending, estimates Harish Manwani, head of the Asian and African businesses of Unilever, a giant of the world's consumer-goods industries. But even with more than a century of experience in some of these countries, Unilever tripped up.

Few companies have had the head start in places like Africa, China, India and Latin America that Unilever enjoyed. Yet despite the Anglo-Dutch giant's formidable range of products and unprecedented depth of local knowledge, when rivals began to push harder its empire came under threat. Unilever was forced to re-examine its legacy and to act on what it found. Now the results are coming through.

Unilever's low point came in September 2004, when its share price slumped after it shocked investors with a profits warning. Just four months later its prospects dimmed further when its arch-rival, Procter & Gamble (P&G), agreed to buy Gillette for $57 billion. The deal greatly bolstered the American company's formidable arsenal of global brands. Unilever needed to change urgently.

That would involve removing unnecessary complexity and bureaucracy, much of it accumulated over decades of operating in almost every country in the world. But change had to begin at the top. Listed on both the London and Amsterdam stock exchanges, Unilever used to be run almost by committee, with two joint chairmen, one appointed from Britain and the other from the Netherlands. In February 2005 its management structure was altered: Patrick Cescau, the joint chairman from the British side, became the sole chief executive.

Mr Cescau, a soft-spoken Frenchman, is a Unilever veteran and may seem an unlikely revolutionary. Nevertheless, under him a more unified company has been taking shape. And it seems all the better for it. In 2006 sales grew by 3.2% to €39.6 billion ($49.7 billion) with net profits of €5 billion. The trend is continuing. Analysts estimate that sales rose by more than 5% last year (the company is due to report its annual results on February 7th), which would be Unilever's best performance for years. The company's improvement “shows that our business model has integrity”, says Mr Cescau in his unflorid way. So Unilever seems to have got itself back on course. But the battle for the emerging-market consumer remains far from straightforward. And it is far from over.

Setting sail for distant markets

Unilever was born in 1930 in one of the largest mergers of its time, between Margarine Unie, a Dutch producer of margarine, and Lever Brothers, a British soapmaker. There was industrial logic in this because both businesses shared a common ingredient, palm oil: growing it in overseas plantations and importing it would benefit from economies of scale. Yet the histories of both firms stretch back into the 19th century, to when they dispatched young men on ships from Liverpool and Rotterdam to faraway places. The young men were under instruction to build businesses. They set up plantations, built factories and established distribution and supply systems. With long lines of communication, these ventures invariably developed as and how they could, often with great independence.

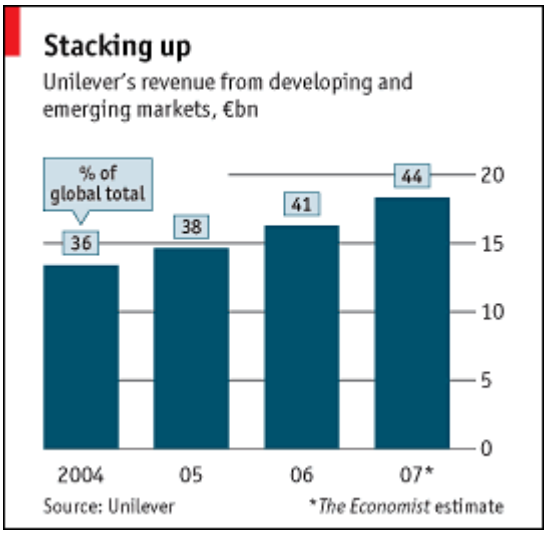
The modern Unilever that eventually emerged carried with it strands of its ad hoc evolution. It is unique among big consumer-products companies in that it makes and sells food, household goods and personal-care products. Its rivals tend to do just one or two of these things: for instance, Switzerland's Nestlé, the world's biggest food firm, does not sell household goods or personal products. And P&G does not sell food, but sales of more than $75 billion put Unilever firmly into second place in the consumer-goods league table. There is also a difference in style: “P&G is simply sharper and more aggressive than Unilever,” says Charles Mills, a consumer-goods analyst at Credit Suisse, an investment bank. Unilever has also fewer “power” brands with annual sales of more than $1 billion than P&G does.

The first thing Unilever did to find out where it was going wrong in 2004 was to look carefully at its portfolio of brands, product categories and countries of operation. Among its biggest brands are Knorr (soup), Hellmann's (mayonnaise), Lipton (tea), Rexona and Axe (deodorants), Omo (laundry detergent) and Sunsilk (shampoo). The company compared the market-weighted growth of its main products and concluded that its brands were doing as well as most of its rivals. So something else was wrong. “We were just not executing as well as we should have,” is how Richard Rivers, Unilever's head of corporate strategy, explains it.

The reason was that Unilever's great strength—its strong roots in local markets—had turned into its biggest weakness. In an age of globalisation, Unilever's local bosses had become kings who took important strategic decisions autonomously. There was duplication and even triplication of corporate structures, creating unnecessary complications. All this weighed heavily on the company, so that it was not able to exploit its size and geographical reach as well as it should have done.

This had to be changed, but not by destroying the need to fine-tune products for local markets. This is a necessity for any multinational selling to the consumer. Even McDonald's and Starbucks, which appear to sell the same stuff everywhere, in fact vary their offerings from place to place. In many instances, Unilever's attention to detail has worked well. For instance, Indian women often oil their hair before washing it, so Western shampoos that do not remove the oil have not sold well. Unilever reformulated its shampoo for India and ditched the conditioner.

But Unilever sometimes went too far. It used different formulations for shampoo in Hong Kong and mainland China, even though the hair and washing habits of most people in both markets are almost identical. Unilever would also sometimes vary the packaging and marketing in similar markets of even its most commoditised products, such as deodorants. “We tended to exaggerate complexity,” says Simon Clift, the chief marketing officer.



This complexity continued at the operating level. In China, says Mr Cescau, Unilever had three companies. Each had its own chairman, who in turn reported to two regional presidents, who answered to two members of the executive committee. Today one person is in charge of China across all divisions. Unilever's China business, with a turnover of around €600m in 2006, is now growing by 20-30% annually, compared with 8-9% before the changes were made. There were similar examples throughout the company, with hundreds of different policies for things like company cars and human resources.

Making Unilever more united, slimmer and more efficient has been painful. The company now has 179,000 staff, down from 223,000 in 2004. There is still some way to go. By 2010 it aims to close some 50 of its 300 factories and reduce its regional centres from 100 to 25. These changes should save €1.5 billion a year. In August 2007, the company revealed a plan to cut a further 20,000 jobs over the next four years. About 12,000 of those will go in Europe, where labour laws are especially stringent. Related

restructuring charges will cost the company an estimated €3 billion in the next three years. In Europe alone Unilever has cut its top two management tiers from 1,200 people to 700.

Unilever's management has carried out the shake-up it promised, reckons Michael Steib, a consumer-goods analyst at Morgan Stanley, an investment bank. But he thinks a difficult year lies ahead. For one thing, recession in America (or something near to it) will have knock-on effects in the rest of the world. But prices for food commodities and energy will remain stubbornly high. And the dollar is unlikely to appreciate in the near future. Like most of its rivals, Unilever will have to increase its prices for food as well as household and personal-care products. This could hit sales, especially in emerging economies.

Unilever's dominant market share in some countries will help—provided its streamlining efforts really have worked. More than 44% of the company's sales now come from emerging economies, compared with 38% when Mr Cescau took over. But defending its strong position can cut into Unilever's profit margins, says Mr Mills, the analyst at Credit Suisse. When P&G decided on a big push into India in 2003-04, margins at Hindustan Unilever, Unilever's Indian subsidiary, fell from just over 20% to a little more than 13%. But it kept its big rival at bay. In the Indian market for laundry products, for instance, Unilever even managed to increase its share slightly, to just over 37%. Ralph Kugler, boss of Unilever's home and personal-care division, is confident that the company can continue to face up to its competitors' advances. “We are much better organised now to defend ourselves,” he adds.

Smell of success

The possibilities in some emerging markets are huge. For instance, the company is the biggest maker of deodorants in the world, with brands including Rexona, Shields, Dove, Lynx, Axe and Sure. But only about half the world uses deodorants. Three decades ago deodorants were almost impossible to find in Brazilian shops, but Unilever's sales there are now worth €400m a year. In 1999 Unilever had almost half of the Argentine market for deodorants; by 2006 its share had increased to more than 70%. Potentially, other markets could soon smell as sweet. Only seven out of every 100 Asians use deodorants, the company reckons, while many Russians and others use them only for special occasions, such as weddings.

The home and personal-care division of Unilever accounts for 45% of the group's sales and does about two-thirds of its business in emerging economies. It also represents the bulk of the company's business in India. Yet Doug Baillie, chairman of Hindustan Unilever, which is listed separately on the Mumbai stock exchange, is also looking at other opportunities. He intends to push particularly hard into food. The Indian market is worth $300 billion a year, but little of this is accounted for by processed food, Unilever's speciality.

Hindustan Unilever is one of the jewels in the company's emerging-market operations. It is India's biggest consumer-goods company and biggest advertiser. One of its strengths is its ability to cater to all segments of the population by adapting products and prices. In laundry detergents, for instance, it makes Surf Excel for the affluent, Rin for the “aspiring” class and Wheel for poorer people, the vast majority of whom live in the countryside. It sells 70% of its shampoo in one-use sachets for the equivalent of a couple of cents. Though Western consumers might find big bottles better value, India's poor simply cannot afford anything more than small quantities.

Social and political issues also matter more. And there is always more to learn. In South Africa, where Unilever has operated for more than 100 years, it recently worked with Ethan Kapstein, a professor of sustainable development at INSEAD, a French business school, to consider the impact that its operations are having on that country. The result has been a report designed to help Unilever think harder about things like training, medical care, pensions, skills transfer, black empowerment initiatives and environmental standards. Unilever has 20,000 employees and 3,000 suppliers in South Africa. Indirectly, it found that some 100,000 jobs depend on the company, making it responsible for the equivalent of 0.8% of total South African employment. The direct and indirect effects of its operations provide almost 0.9% of GDP.

Eating better

Even allowing for the progress under Mr Cescau, Unilever faces three big challenges: food, marketing and mergers. About 30% of Unilever's €22 billion food business is in emerging economies. The company has six food brands with global sales of more than €1 billion each. But it needs to venture further into health

and convenience foods, two of the industry's main areas of growth. Unfortunately, Unilever's foods tend to be at the more fattening end of the scale: it is the biggest producer of ice cream (its brands include Magnum, Cornetto and Carte d'Or, and it scooped up Ben & Jerry's in 2000), margarine and mayonnaise. Only Knorr soups and Lipton tea qualify as healthier fare.

Vindi Banga, head of the food division, says Unilever has made its spreads and ice creams healthier without making them less tasty. " We cut 4,000-5,000 tons of salt, 17,000 tons of sugar and 35,000 tons of saturated fat from our products," he says. The group has also launched new products, such as Knorr Vie, a range of concentrated fruit and vegetable juices, as well as ice cream made from yoghurt. Historically, food has been one of the most locally run businesses, but that is changing. Knorr's tomato soup, for example, is now the same everywhere except for the finishing touches, such as spices and salt. "Food is not local," adds Mr Banga. "Taste is."

Marketing can also make a big difference to a company's performance. Yet the quality and effectiveness of Unilever's campaigns has been decidedly mixed. "We had the good, the bad, the ugly and the outstanding," says Mr Cescau.

At their best, Unilever's ads have been more provocative and funny than those of its rivals. It won awards for Dove's quirky "Campaign For Real Beauty", which departed from convention by showing ordinary women in their underwear instead of slinky models. The Dove range now covers skin creams, shampoos and shower gels. But even that campaign had to be adjusted to local tastes: it was deemed better not to show the women touching each other in America, while in Latin America tactile women didn't shock anybody. "We must constantly ask ourselves how much we tailor things to the local market," says Mr Clift, the marketing chief.

The Dove campaign was followed by the launch of the Dove " self-esteem fund", a worldwide campaign to persuade girls and young women to embrace more positive images of themselves. Unilever made an online video called "Onslaught" as a sort of attack on the beauty industry, with slogans such as "Talk to your daughter before the beauty industry does." But "Onslaught" backfired somewhat: the company, after all, is part of the industry it mocked. Unilever also makes laddish ads for Axe and Lynx, two deodorants for men with a message that (depending on your point of view) is either just a bit of fun or plain sexist.

Some in the industry think Unilever might attempt a big takeover, as P&G did with Gillette. Its last big swoop was in 2000, a $24.3 billion takeover of Bestfoods, an American company, maker of Hellmann's, Knorr and Marmite. Unilever has paid back €20 billion in debt and with an underleveraged balance sheet could go shopping again. But credit markets are in turmoil. Two of the most attractive potential targets in Europe are Reckitt Benckiser, a British maker of household and personal-care products, and Danone, a French food firm. But both would be expensive and they are fiercely independent.

Nor has Unilever forgotten its debacle with the takeover of SlimFast Foods, a maker of slimming drinks. Unilever paid $2.3 billion for SlimFast in 2000—only to see sales live up to the company name as low-carbohydrate diets, like the Atkins diet, rapidly gained in popularity. Although SlimFast's sales have slowly put on weight again, analysts estimate that the business is still worth only half what Unilever paid for it.

Unilever is more likely to gobble up smaller companies across the globe. It is planning to rid itself of more of its tired brands or those that do not fit into its healthy-food plans. Last year it sold Boursin, a cheese brand, to France's Le Groupe Bel. Having big brands with global clout helps consumer-goods companies to get more space on retailers' shelves. And economies of scale allow them to undercut rivals on price. Although Unilever has tried to steer clear of head-to-head competition with P&G, that will not always be possible. But with the balance of the world economy shifting, Unilever's head start in emerging markets is a valuable advantage, not least because many of its brands are already well-known there. For instance, Lifebuoy, its disinfectant soap, is one of the world's oldest global brands. So if it can make even more out of its legacy, Unilever will be a fearsome competitor.

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Société Générale

No Défense

Jan 31st 2008
From The Economist print edition

The humiliated French bank has plenty more explaining to do before putting its rogue-trader scandal behind it

Rex Features

AN OLD line of Hank Paulson's has been dusted off since news broke of a €4.9 billion ($7.2 billion) trading loss at Société Générale, France's second-largest bank. “We will never eliminate people doing bad things,” the former head of Goldman Sachs, now America's treasury secretary, once said. “In a town of 20,000 people, there's a jail.” The question now being asked of SocGen is: shouldn't there also be a police force?

In fact, SocGen has plenty of internal cops at its high-security headquarters in the La Défense enclave of Paris. The bank's annual report for 2006 devotes 26 reassuring pages to its risk-management practices; more than 2,000 staff worked in the function that year, and lots more bodies were added in 2007. Yet none of them stopped Jérôme Kerviel, the trader accused of taking enormous unauthorised bets, from building an unhedged €50 billion exposure to European futures markets (Mr Kerviel reportedly alleges that his supervisors were aware of his activities).

On January 28th Mr Kerviel was placed under formal investigation for abuse of trust, breaching computer security and falsifying documents. Two days later Daniel Bouton, SocGen's chairman and co-chief executive, survived a board meeting to consider his handling of the affair. He was lucky. Holes have not only appeared in the bank's accounts; its initial version of events is also looking threadbare.

Mr Bouton's description of Mr Kerviel as having “an extraordinary talent for dissimulation” certainly looks less convincing as more details emerge. Although Mr Kerviel was properly found out on January 18th, he had tripped alarms inside the bank well before then. “When challenged, he was clever enough to say, for example, that he had made a mistake,” says Jean-Pierre Mustier, the head of SocGen's investment-banking arm. Clever, indeed. Rival banks, admittedly fortified by anonymity, say that their traders would not have been able to keep getting away with that kind of explanation. Some people wonder if SocGen would have blown the whistle at all had the bets been profitable. Outsiders raised other suspicions. Eurex, Europe's largest futures exchange, contacted SocGen about oddities in trading patterns in late 2007, which the Paris prosecutor says referred to Mr Kerviel's positions. The bank says that Eurex's questions were rather technical in nature and that it had responded to them.

The sheer size of Mr Kerviel's exposure, the losses on which tripled as SocGen frenetically unwound its positions between January 21st and 23rd, has caused most bafflement among veterans of the futures markets. Two big blind spots saved him from detection. The first was the bank's focus on traders' net exposure, the difference between the portfolios that are being arbitraged. Mr Kerviel did not have a defined gross-exposure limit. By creating a fictitious portfolio of trades that appeared to balance those he

was really making, his net exposure stayed within set ranges and he remained below the radar.

Why didn't the margin calls on Mr Kerviel's real trades (likely to have been of the order of €2.5 billion on a €50 billion position) trigger alarms? This was the second blind spot. According to Mr Mustier, margin data from Eurex showed only consolidated positions. These positions were “not a different order of magnitude” from the volumes expected of a big investment bank. “One lesson of this is that it is important to see what is attributable to each trader,” he says. In truth, that should not have been too difficult: as well as consolidated figures, Eurex says it does already send data that tie margins to specific traders on a daily basis.

Mr Kerviel's credentials as a supervillain look less impressive in other ways too. His fictitious portfolio did not just comprise over-the-counter transactions with big banks, where agreed credit limits meant he could avoid margin calls. Embarrassingly, it also included trades with other parts of SocGen. Access to risk-control codes did not necessarily require the skills of a seasoned hacker; the bank says he may simply have offered to input details of trades on behalf of middle-office people when there was lots of activity on the trading floor. Some control procedures appear to have been predictable, being timed to take place shortly before the settlement date of futures contracts. Mr Kerviel's limited holidays and late nights should also have raised red flags.

Despite the resounding support of the board, Mr Bouton has been severely weakened. Nicolas Sarkozy, the French president, has made pointed calls for SocGen executives to face “consequences” (see article). The chairman may not survive the findings of an internal investigation into the loss. The future of the bank itself is also in doubt. Its shares have slumped since the start of the year (see chart) and its credibility has been shredded, not just by the trading loss but also by write-downs of subprime-related investments. Analysts are trying to work out who might be in a position to buy the bank; one option is a joint approach by two other French institutions, BNP Paribas and Crédit Agricole, with BNP taking SocGen's retail operations and Crédit Agricole the investment bank.

The question now is whether the flaws that seem to have torpedoed SocGen are endemic to other banks. There are some reasons to think not. SocGen's management was being criticised for poor standards of disclosure well before news of the Kerviel affair broke: “They had not imposed the important discipline of transparency on themselves,” says John Raymond of CreditSights, a research firm. In common with other French banks, SocGen was also thought by many to take an overly mathematical approach to risk. “‘It may work in practice but does it work in theory?' is the stereotype of a French bank,” says one industry consultant. More obvious visual cues—beads of sweat running down Mr Kerviel's face, say—may get overlooked in this type of environment. And the sheer size of the loss partly reflects the bank's pre-eminent position in the equity-derivatives field.

But there is no cause for complacency. Most observers, regulators included, concede that banks can do little to stop determined individuals from sidling around controls, at least for a while.

And in the midst of the subprime crisis, the SocGen saga resonates for other reasons too. One concerns the status of risk managers within banks. Mr Kerviel is alleged to have outfoxed rather than pulled rank on risk managers, but swaggering traders can find it all too easy to ignore the concerns of meek back-office types. Many Wall Street banks have responded to the meltdown in structured credit by strengthening their risk teams. The SocGen loss will accelerate that trend.

Events at SocGen will also fuel an old debate about bankers' pay—Mr Kerviel was reportedly motivated by his desire to win a higher bonus—and a newer one about the ability of banks to keep pace with the dizzying growth of derivatives markets. It will also reinforce concerns about how “fat-tail”, or extreme, risks correlate: might SocGen's risk managers have been too distracted by its subprime woes to keep watch on the futures desk?

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French capitalism

Biting the hand that feeds it

Jan 31st 2008 | PARIS
From The Economist print edition

France has a paradoxical attitude to financial risk

Get article background

"THE Che Guevara of finance"; the "James Bond of SocGen". It did not take long for French pundits to elevate the Société Générale trader to the status of anti-capitalist folk hero. By humiliating a leading bank, as *Nouvel Observateur* magazine put it, Jérôme Kerviel "has over the course of one weekend become a modern hero". In many ways, the SocGen drama encapsulates the contradictions of France's attitude to capitalism: on the one hand, there is widespread suspicion of the markets; on the other, world-class financial skills.

The French seem peculiarly hostile to the forces of capitalism that have made their economy the world's sixth biggest and their companies global leaders. In a 2006 poll, only 36% agreed that the free market was the best system available, compared with 71% of Americans and 66% of the British. Suspicions about wealth creation have a long history. Honoré de Balzac once wrote: "Behind every great fortune lies a forgotten crime."

Politicians have worked hard to sustain this sentiment. At last year's presidential election, five of the 12 candidates stood on explicitly anti-capitalist platforms. Even President Nicolas Sarkozy, who promised a "rupture" with out-dated economic attitudes, has repeatedly laid into financial speculators, as if their activity was some sort of optional bit of the capitalist system.

Yet France's financiers have helped develop the very markets the political elite professes to deplore. French financial innovation is considered world-class. In the 1980s, Société Générale was a pioneer in the development of sophisticated equity derivatives, based on the complex mathematics in which the elite French education system excels. It drew on a steady stream of brainy graduates of the *grandes écoles*, such as the École Polytechnique or the École des Mines, many of them trained as much in civil as in financial engineering.

It now looks as if SocGen was rather better at devising risk products than at managing them. All the same, the gap between French skill in financial engineering and popular contempt for financial markets remains wide. This week, Mr Sarkozy once again declared: "We want a capitalism of entrepreneurs, not a capitalism of speculators."

Mr Sarkozy may simply be pandering to popular distaste but this does seem to reflect a limited sympathy for economic liberalism. Not only did he hint early on that the head of SocGen, a wholly private bank, should resign. His prime minister, François Fillon, also insisted that the bank remain French. With liberals like that, no wonder the French have trouble trusting the markets.

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American interest rates

Aggressive activism

Jan 31st 2008
From The Economist print edition

The Fed writes a new economic script

NO ONE could accuse America's policymakers of standing pat as the economy flirts with recession. Congress is close to passing a fiscal-stimulus package worth just over 1% of GDP (the House of Representatives passed its version at $146 billion on January 29th). And the Federal Reserve is loosening the monetary reins at the fastest pace in decades.

On January 30th America's central bank cut its policy rate by half a percentage point to 3%, little more than a week after slashing that rate by 0.75 percentage points in an unscheduled meeting. Official short-term rates have now fallen by 2.25 percentage points since the credit turmoil stemming from American mortgages began last August. With underlying inflation running at well over 2%, real rates are now barely positive. In a matter of days, American monetary policy has gone from broadly neutral to clearly loose. Gone is the incremental approach to altering interest rates. Instead there is a new Bernanke boldness.

The central bankers justify this shift on two grounds. First, evidence is mounting that the economy has weakened dramatically, making looser monetary conditions appropriate even though underlying inflation remains high. Second, Fed officials believe that the turmoil in financial markets, particularly the tightening of credit conditions, raises the probability of a nasty downturn. By acting quickly and boldly, the central bankers want to minimise the risk of such a calamity.

There is little doubt that the economy has slowed sharply. According to initial estimates published on January 30th, output grew at an annual rate of only 0.6% in the last three months of 2007 (see article). News from the housing market grows ever gloomier. The pace of home sales is still falling; the inventories of unsold homes are rising and prices are plunging. According to the S&P/Case-Shiller index based on 20 big American cities, average house prices fell by 8% in the year to November. Prices fell in every city in the last month. Retail-sales figures suggest consumers are growing more cautious, and December's surprise jump in the jobless rate raised alarm about the labour market.

But not all indicators point to disaster. Orders for durable goods and a private payroll report were surprisingly good. That suggests the Fed's boldness is driven more by policymakers' second rationale, that of reducing the risk of a negative spiral from financial markets to the economy. Hence the decision to slash rates on January 22nd, in response to a global sell-off. Strikingly, the Fed statement on January 30th mentioned “stress” in financial markets before discussing the economy. In a doveish text, the central bankers left no doubt that they were most worried about the downside risks and would act in a “timely manner” to address them.

Judging by the price of Fed fund futures, investors expect the federal funds rate to be as low as 2.25% by the end of the year. That highlights the danger in Mr Bernanke's new strategy. In trying to prevent financial-market calamity, the Fed may find itself pushed by Wall Street to leave interest rates too low for too long.

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Buttonwood

Heart of Glass

Jan 31st 2008
From The Economist print edition

Existing regulation seems to encourage banks to get into trouble

REMEMBER when a bank manager was the epitome of prudence? For the past six months, almost all the news from banking has been bad, even though this is an industry monitored by vast teams of regulators. By contrast, the unregulated hedge-fund industry has buried its dead with much less fanfare and many fewer unpleasant consequences.

This suggests two main possibilities. Either the standard of bank regulation is very poor or there is something about being regulated that leads to trouble.

Probably the answer is both. Financial regulators did little to restrain banks when the boom was under way, bar the odd comment that the industry was underpricing risk. Nobody seemed to worry that Britain's Northern Rock, for example, depended heavily on wholesale borrowing while indulging in more risky mortgage loans. Provided banks had sufficient capital, the regulators seemed content to leave the detail of business strategy to managers and the markets. Even the old international capital standards imposed from Basel seem merely to have encouraged banks to game the system—by financing themselves off balance sheet.

But while the authorities are happy to leave banks alone when times are good, they are quick to intervene at the first hint of crisis. This has been shown by the rescue of Northern Rock, steep interest-rate cuts by the Federal Reserve (including one this week), the European Central Bank's enormous intervention in the money markets last year and so on.

The rationale for this is that the banks are such a vital part of the modern economy. Had Northern Rock failed, Britons might have withdrawn their money from many more banks. The banks in turn would have been forced to cut credit to consumers and businesses. Nobody wants to see a repeat of the 1930s when bank failures ushered in the Depression.

However, the bargain that was made in the 1930s has been broken. The American authorities agreed to guarantee bank deposits in order to prevent the kind of bank runs that damaged Northern Rock. But the *quid pro quo* was the Glass-Steagall act of 1933, which separated the roles of commercial and investment banking. If commercial banks were to be protected, they should not be allowed to gamble in the securities markets.

Glass-Steagall survived without much of a challenge until the 1980s. But the opening up of international financial markets led to a huge growth in cross-border capital flows. Companies needed to raise billions of dollars by issuing shares and bonds; somebody had to underwrite them. When the pension funds and insurance companies that bought those securities wanted to sell them, there was the need for marketmakers to take on their positions. In both cases, the counterparties required lots of capital. The investment banks had the skills but not the capital; the commercial banks had the capital but were excluded from the business.

Hence the growth of the universal bank (for example, Citigroup), in which investment and commercial banking were combined. Glass-Steagall became honoured more in the breach than the observance and was finally put out of its misery in 1999. Of course, some of the Wall Street banks, such as Goldman Sachs, are not in the business of taking retail deposits. But they are probably still classed as too big to fail: it seems likely that the authorities would either organise a rescue, or slash interest rates, if they were deemed to be in serious trouble.

This does not look like a very good bargain from the taxpayer's point of view. The employees get all the rewards if things go well. The taxpayer pays the bill (or if he is a saver, sees his income fall) if things go badly. The moral hazard is clear; it is not just rogue traders, such as Jérôme Kerviel at Société Générale,

who are given huge incentives to take risk. Their bosses are too. One might well describe investment banks as hedge funds backed by an implicit government guarantee.

How could this bargain be improved? One answer would be the Admiral Byng solution, in memory of the sailor executed for incompetence; let a big bank go bust “to encourage the others”. But the authorities are reluctant to take this step, given the fragility of the economy. And the chances are bank problems will always coincide with economic weakness.

Other solutions would require cumbersome regulation, whether they involve adjusting bankers' pay packages or bringing back a new version of Glass-Steagall. But the economic imperative is clear. Deposit-taking banks should keep their government guarantee, whereas banks that want to live like hedge funds should learn to die like them too.

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Exchanges

Gulp, swallow, gulp

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Another tasty mouthful for Chicago's futures giant

CRAIG DONOHUE cuts an incongruously mild-mannered figure in a business known for sharp elbows and even the occasional punch. But the CME Group's lawyer-turned-boss is no pushover. Not content merely to run the world's biggest futures market, he seems bent on total domination. Having bagged its hometown rival, the Chicago Board of Trade (CBOT), last summer, the CME is negotiating an $11 billion takeover of the New York Mercantile Exchange (NYMEX) that would push it past Germany's Deutsche Börse to become the world's most valuable exchange group. “Their strategy seems fairly simple: be in all products in all markets,” says Craig Abruzzo, co-head of listed derivatives at Morgan Stanley.

If the talks bear fruit, the CME would, at a stroke, plug its last big gap in futures, energy contracts, which NYMEX dominates in America. The two are already partly woven together by an agreement that sends roughly half of NYMEX's orders to the CME's Globex electronic-trading platform. This closeness and the reduction in costs that would come from crunching together the exchanges' clearing houses may well deter counter-bidders.

Since the combination would put more than 95% of American futures trading under one roof, regulators are sure to pore over it. Some customers fear that the CME will start to raise trading fees once it has swallowed its rivals. This worry is particularly acute in a business in which barriers to entry are much higher than in cash equities, where nimble electronic trading networks have helped to hammer down commissions. Most attempts to poach futures business have been quickly repelled, except when an online exchange has targeted an inefficient “open outcry” market, as InterContinental Exchange did when nabbing oil futures from NYMEX before the latter went electronic. With the CME already a leader in screen trading, it looks all but unassailable.

Mr Donohue will doubtless argue, as he did successfully in defence of the CBOT takeover, that the relevant market for antitrust purposes is the world, not America—the combined exchange would have a more modest 38% of worldwide volume—and should also include the vast market for over-the-counter (OTC) derivatives, which are traded off exchanges largely among banks. He can counter lack-of-competition arguments by pointing to a new Treasury-futures venture, set up by eSpeed, a broker, and a group of banks. Some upstarts find the going tough, but that may have less to do with unfair barriers than with liquidity being hard to shift once it has found a comfortable home.

Largely because they are so hard to budge, derivatives exchanges tend to trade at much higher multiples than markets that deal mostly in stocks. This explains why the latter, particularly NYSE Euronext and NASDAQ, are so keen to get deeper into futures and options—and why the current financial crisis has done little to dampen the merger frenzy that has gripped exchanges over the past couple of years.

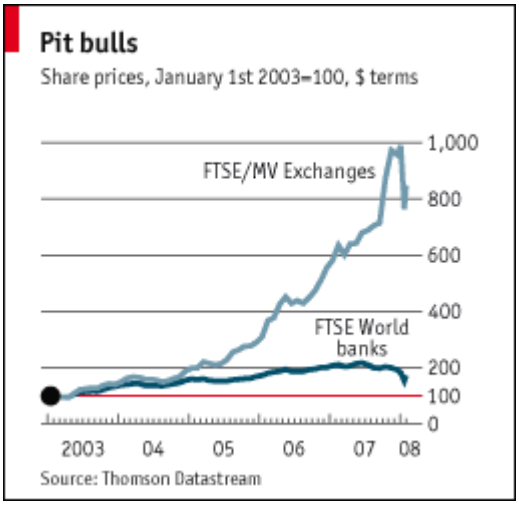
Unlike their users, exchanges have had a good credit crunch. Volatility is their friend. Turnover, and thus fees, have shot up as traders try to extricate themselves from trouble. The NYSE has had eight of its ten busiest weeks ever since July. Fourth-quarter volume at the CME was 23% higher than a year before. This is not sure to last, however. The recent wobbles in exchange shares reflect concern that trading and listings would slump if the downturn is prolonged, points out Larry Tabb, a consultant (see chart).

The crisis may help exchanges in another way, by highlighting the opacity and illiquidity of some OTC instruments. The CME, for instance, is pushing new clearing services for swaps, currencies and even credit derivatives—until recently the exclusive preserve of broker-dealers charging fat fees for a “bespoke” service.

Among the advantages of this hybrid model, argues Kim Taylor, the exchange's head of clearing, are daily marking to market ("so losses can't accumulate undetected"), ease of selling and less chance of not being paid, since the exchange acts as counterparty to both sides of the trade.

Brad Hintz, an analyst at Sanford Bernstein, expects to see a substantial migration of OTC derivatives to such platforms. Like polo shirts that come only in large, medium and small, centrally cleared products may fit a client's needs less snugly than customised ones, he says. But investors are increasingly willing to give up some risk-tailoring for ease, speed and safety of trading.

All of which is grist to Mr Donohue's ever-expanding mill. If he can win NYMEX and coax more trading away from the banks, he will have every reason to become a little more boisterous.



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Economic statistics

Odd numbers

Jan 31st 2008
From The Economist print edition

Why America's advance GDP figures do not paint the whole picture

AS THE old joke goes, statistics are like a bikini—what they reveal is suggestive, but what they conceal is vital. America's advance GDP figures tend to be more of a bathing suit than a bikini: they are a bit outdated and hide as much as they show. Nevertheless, on January 30th it wasn't just hardened statisticians whose eyes were out on stalks. Fourth-quarter numbers, showing an annualised growth rate of 0.6% (or less than 0.2% in quarterly terms), suggested that America's economy was barely growing at the end of last year. It was lower than economists had expected.

Financial markets were initially thrown by the data. Toss in a revision or two and it is conceivable that they might have marked the start of a recession—defined as two consecutive quarters of decline.

That could easily happen. Indicators for October and November were much stronger than for December. Many of the source numbers for December were not available for the advance estimate, so statisticians had to make an informed guess, in some places using the stronger months as a guide.

That said, revisions could go the other way. A large fall in inventories subtracted 1.25 percentage points from fourth-quarter growth, making a far bigger dent than usual in the figures. Changes in inventories, however, are often subject to large revisions. They might well be adjusted upwards later.

The first estimate of America's GDP is notoriously imprecise, and is probably more so during times of wrenching economic change. According to the Bureau of Economic Analysis, which computes the GDP figures, around 25% of the required source data are not available for the first estimate and only partial information (for example two out of three months' data) is on hand for a further 30% of sources.

Between 1994 and 2004—years for which figures are no longer likely to be much updated—the average (annualised) revision to the growth rate between the advance and the latest figure was 1.3 percentage points. Recently revisions have tended to be downwards. In the past five years 60% of initial estimates were later restated at a lower rate.

The picture will become clearer on February 28th, when the second estimate of GDP is released. This iteration tends to include sharp revisions, because almost all of the final month's numbers are available.

Some statisticians argue that there is a case for postponing the GDP data, as countries such as Canada and Australia do, until it is comprehensive. But given how jumpy the markets are at present, a gradual disrobing may be gentler on everyone's nerves.

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Credit derivatives

Gross exaggeration

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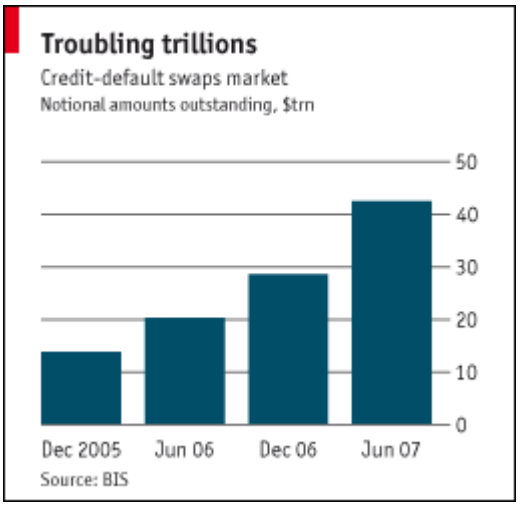
A public spat has broken out in the private market for credit-default swaps

HOW much damage could unstable credit derivatives do to the financial system? An enormous amount, reckons Bill Gross, a well-known American fund manager, who puts the potential losses from such contracts at a whopping $250 billion—almost twice the amount that banks have written off to date against their dodgy subprime-related exposures. Nonsense, says the International Swaps and Derivatives Association (ISDA), which represents the derivatives industry. It reckons the amount at risk is a comparatively trifling $15 billion and accuses Mr Gross of scaremongering.

In fact, both sides' conclusions are suspect. In a report from PIMCO, the money-management firm that he co-founded, Mr Gross estimates that $45 trillion of credit-default swaps (CDSs) were outstanding at the end of 2007, up from $43 trillion reported by the Bank for International Settlements in the middle of the year (see chart). These swaps are used to speculate on the likelihood of a borrower repaying its debt. If, as seems likely, the default rate approaches 1.25% this year, Mr Gross reckons about $500 billion-worth of contracts will blow up in traders' faces. Assuming half of this amount can be recovered, that still leaves a $250 billion problem.



The snag with this arithmetic is that it ignores the fact that many CDS contracts overlap or offset one another. For instance, a bank might sell $50m of protection on a firm and then buy $30m of protection on the same company from elsewhere. The contracts total $80m, but the bank's net exposure is only $20m. In a practice known as netting, institutions such as PIMCO that trade in CDSs work out their remaining exposure after accounting for their positions on various contracts. This cuts the amount at risk to $1 trillion. Assuming a default rate of 2% and a conservative recovery rate of 25%, ISDA reaches its $15 billion figure.

But if their net exposure is so low, why have banks been so coy about it? The answer is that ISDA's number-crunching doesn't take sufficient account of counterparty risk—the danger that a party to a trade will fail to keep its end of the bargain. This is a very real threat: America's monoline insurers, which have sold protection via CDS contracts, are in dire straits. “The netting-of-contracts concept tries to suggest that it is impossible to drown in a stream with an average depth of two feet,” says Mr Gross. “Not so.”

Still, most firms should keep their heads above water. Andrea Cicione of BNP Paribas has made a stab at assessing the robustness of protection sellers. His analysis concludes that CDS-related losses could range from $32 billion at best to $158 billion at worst. Those are net figures, by the way, not Gross ones.

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Banking in Japan

A cash machine

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A tempting share offer is available at 7-Eleven stores in Japan

STOCKMARKETS are slumping and banking is troubled, but a Japanese firm hopes to buck both trends. Seven Bank, a subsidiary of Seven & i Holdings, plans to list shares on JASDAQ, Japan's small-companies exchange, on February 29th. It runs automated teller machines (ATMs) at its parent's 7-Eleven stores. It sounds mundane, but it is a licence to print money.

Curiously, in a high work-ethic country like Japan, cash machines have an easy life. More than half are shut through the night; those that are not charge more for nocturnal transactions—much as taxis do.

But Seven Bank operates around the clock (40% of its ATM transactions occur overnight). Since it started in 2001, it has installed 13,000 ATMs and generally charges the same rate for withdrawals as the banks' own ATMs. Last year it earned ¥12.7 billion ($105m) on ¥75.4 billion of revenue, almost all from ATM fees.

Part of the success is cultural. The Japanese love convenience stores. Unlike many Japanese firms, the bank also outsources much of its work—which enables it to operate with just 300 full-time staff.

Technology is a third advantage. Whereas most ATMs in Japan cannot handle foreign cards, Seven Bank's latest machines can. They can also take deposits, be used to pay bills and transact with insurance and securities firms. Last year, transactions per machine grew by around 10%.

Despite its high-tech wizardry, Japan is the consummate cash society: though e-cash is catching on, people still carry around wads of notes. Provided the stockmarket obliges, Seven Bank's shares may tempt the Japanese to part with some.

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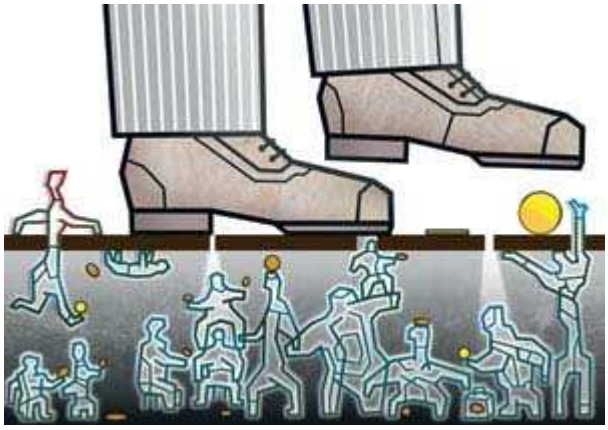
Economics focus

The in-betweeners

Jan 31st 2008
From The Economist print edition

A lot is expected of the middle class in emerging economies. But they just want a quiet life

Illustration by Jac



TWO jars of chickpeas, 20 bars of soap, three packs of cigarettes and six sachets of shampoo—all these items and more are in stock at a village store five hours away from the Indian city of Hyderabad. It is the leanest of inventories, and yet it supports great hopes. Combined with a scrap-metal business, the store is just enough to lift its owners into the ranks of India's fabled middle class. They and their comrades in Latin America, Africa and emerging Asia belong to a vague demographic that no one can define precisely, but which everyone agrees is vital to stability and prosperity in the developing world.

“The virtues of a middle class are those which conduce to getting rich—integrity, economy, and enterprise,” observed John Stuart Mill after the industrial revolution. Do the new middle classes share those virtues? In a recent paper* Abhijit Banerjee and Esther Duflo, two economists at the Massachusetts Institute of Technology, have tried to find out. As well as visiting village stores outside Hyderabad, they drew on household surveys in 13 developing countries, from Mexico and Panama to Tanzania, South Africa and East Timor. The result is a sequel to their 2006 portrait of the lives of those living on about $1 a day.

The two authors define the middle class abstemiously, as those who spend $2-10 a day, measured in 1993 purchasing-power-parity dollars. In other words they have about the same command over goods and services as Americans spending $1,050-5,200 a year in today's money. If this seems too austere a standard, note that 88% of the rural Indians in their surveys lived on less than this, and that the middle-class Britons who won Mill's praise earned little more.

Do the emerging middle classes exhibit the temperance and economy that Mill celebrated? Like good burghers everywhere, they invest in their health and their homes, the surveys show. Most also spring for a television, and the share of their spending devoted to entertainment rises steadily with income. To be middle class is to have licence to indulge more freely in creature comforts. To the very poor, on the other hand, even drinking tea is a wasteful extravagance.

And what of enterprise? Does the spirit of capitalism burn in the new middle classes? They are often portrayed as “entrepreneurs in waiting”, the authors note, ready to transform their lives and their economies if only they can get secure title and ready capital to underwrite their businesses. “It is impressive how pervasive is the view that the poor are sitting at the cusp of a huge opportunity to get much richer—by now it's almost an axiom,” says Mr Banerjee.

A nation of shopkeepers

In fact, the urban middle classes are no more likely to own a business than the poor. (In the countryside, the pattern is mixed.) And even when they own one, their hearts are not really in it. Their ventures are tiny, often one-person operations doing mostly what their neighbours do. In Hyderabad and its environs, 21% of the middle class run general stores, 17% tailor-shops, 8.5% telephone booths and 8% sell fruit and vegetables. Others sift through rubbish for items of value, sell milk or collect dung. The businesses turn a modest profit, but only if the value of the owner's own time is not counted.

The businesses are short of capital. The threadbare inventory the authors discovered in the village store outside Hyderabad is only one example. Few businesses own machinery, or even a bicycle. The two economists cite an experiment, sponsored by the World Bank, which randomly bestowed about $100-200 of extra capital on tiny businesses in Sri Lanka. The annualised return on the money was an impressive 94% on average.

If their businesses are so starved of capital, why do the middle classes not invest more in them? Borrowing, as the proponents of microcredit point out, is expensive. But there is nothing to stop households accumulating capital by saving. After all, they defer gratification enough to “invest” in their homes and TV sets, so why not in their enterprises?

The authors speculate that the new middle class is not an aspiring bourgeoisie of petty businessmen. They are, instead, aspiring salarymen. To be middle class is to draw a pay packet weekly or monthly, rather than daily or hourly. An hour from Udaipur, another Indian city, the authors spotted well-tended homes with motorcycles in the courtyard and children in starched school uniforms. Sure enough, a zinc factory was operating nearby.

For those who cannot get such regular jobs, a petty business is the next best thing. The hours are long, but not very intense. The storeowner outside Hyderabad chatted happily with the pair of inquisitive economists for two hours. Only two customers showed up in that time. One bought a cigarette, the other a stick of incense.

This segment of the middle class may lack the gumption to expand their businesses, or perhaps they know something about their prospects that their cheerleaders do not. Their businesses might benefit from a little more capital: some extra jars of chickpeas or sticks of incense. But once such businesses get beyond a certain size, the authors argue, the returns to scale diminish quickly. A village can support several identical stores, but not if they get too big.

Adam Smith, who described Britain as a nation of shopkeepers, had a keen sense of what could be expected of the middle class. The prudent man, he wrote, “does not go in quest of new enterprises and adventures, which might endanger, but could not well increase, the secure tranquillity which he actually enjoys.” Cup of tea, anyone?

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* Available at econ-www.mit.edu/files/2081.

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Electricity storage

Ne plus ultra

Jan 31st 2008
From The Economist print edition

Illustration by David Simonds

A new version of an old idea is threatening the battery industry

PUT the pedal to the metal in the XH-150—a souped-up Saturn Vue—and watch the instruments. Sure enough, the speedometer shoots up in a satisfactory way. But an adjacent dial shows something else: the amount of charge in the car's capacitors is decreasing. Ease off the accelerator and as the speedo winds down the capacitors charge up again.

Such a capacitor gauge could become a common sight on the dashboards of the future. A capacitor can discharge and recharge far faster than a battery, making it ideal both for generating bursts of speed and for soaking up the energy collected by regenerative braking. AFS Trinity, a company based in Washington state, has turned that insight into a piece of equipment that it has fitted into an otherwise standard production model as an experiment. The result—the XH-150—was unveiled at this year's Detroit motor show.

In fact the XH-150 is a three-way hybrid, employing a petrol engine and conventional lithium-ion batteries as well as its special capacitors. An overnight charge gives it an all-electric range of 40 miles (60km), after which the petrol engine needs to come into play. AFS Trinity says the vehicle is capable of more than 80mph and returns the equivalent of 150 miles per gallon (more than 60km/litre) in normal use. Edward Furia, the firm's chief executive, reckons the extra kit would add around $8,700 to the price of a petrol-only vehicle were it put into mass production.

This, however, may be only the start. Eventually, the so-called ultracapacitors on which the XH-150 is based may supplant rather than merely supplement a car's batteries. And if that happens, a lot of other batteries may be for the chop, too. For it is possible that the long and expensive search for a better battery to power the brave, new, emission-free electrical world has been following the wrong trail.

Full capacity

A traditional capacitor stores electricity as static charges, positive and negative, on two electrodes that are separated by an insulator. This works best when the electrodes are parallel with each other, which means they need to have smooth surfaces. The amount of charge that can be stored depends on the

surface area of the electrodes, the strength and composition of the insulation between them, and how close they are together. If the electrodes are then connected by a wire, a current will flow from one to the other. A battery, by contrast, stores what is known as an electrochemical potential. Its two electrodes are made of different chemicals—ones that will release energy when they react. But because the electrodes are physically separated from one another their chemical constituents can react only by remote control.

This is able to happen because the space between the electrodes is filled with a material called an electrolyte which allows ions (electrically charged atoms, or groups of atoms) to pass from one electrode to the other and thus combine with their chemical complements. To compensate for this movement of ions, electrons have to move in the opposite direction—and if the electrodes are connected by a conducting wire running through a useful circuit, that is the route they will take. Chemical electrodes of this sort can store a lot more energy than the static electricity of a capacitor. But the whole process of ion movement and chemical reaction is slower than the movement of electrons in a capacitor. Hence the different advantages of the two storage systems: capacitors give speed; batteries, endurance.

The reason ultracapacitors may be able to bridge the gap between speed and endurance is that, like batteries, they use ions and an electrolyte rather than simply relying on the static charges. In an ultracapacitor, positively charged ions gather on the surface of the negatively charged electrode and negative ions on the surface of the positive electrode. Since the ions do not actually combine with the atoms of the electrodes, no chemical reaction is involved. The ionic layers are also very close indeed to the surfaces of the electrodes, and obviously run parallel with them whatever their shape. This, in turn, means clever engineering can increase the surface area (and thus the storage capacity) without increasing the volume. And that gives endurance without sacrificing speed.

Existing ultracapacitors get their extra surface area by using electrodes coated with carbon and etched to produce holes, rather like a sponge. This gives about 5% of the storage capacity of a battery. But Joel Schindall and his colleagues at the Massachusetts Institute of Technology think they can do better than that using nanoengineering. Instead of digging holes in the electrodes, they are coating them with a forest of carbon nanotubes, each five nanometres (billionths of a metre) wide. This, they hope, will push capacitors to 50% of a battery's storage capacity.

A different approach has been taken by EEStor, a Texan firm that has developed a capacitor it claims can store “very high” levels of energy using a special insulator called barium titanate rather than an electrolyte. Its “Electrical Energy Storage Units” will go into production later this year. EEStor recently signed a deal to supply Lockheed Martin, a big defence contractor, which wants to use the storage units in rugged packs that will power a variety of military and security equipment.

EEStor also envisages employing its devices to build an “energy bank” to store off-peak power and release it when demand is high. One use of such a bank, the firm suggests, could be the rapid charging of electric cars—which would, of course, also be fitted with capacitors.

That would remove a big obstacle to the adoption of electric vehicles in general—that it takes so long to refuel them. If a driver could pull into an electrical filling station and top up his capacitors as rapidly as he can now replenish his petrol tank it would both increase the effective range of all-electric vehicles and decrease resistance to buying them in the first place.

At least one firm is backing the logic of this argument in its showrooms rather than just in prototypes. Ian Clifford, the chief executive of the Zenn Motor Company in Toronto, has done a deal with EEStor to replace the lead-acid batteries in the small, low-speed electric cars that his firm sells for urban use. Mr Clifford reckons that ultracapacitors will transform his vehicles and enable them to be used on motorways as well as city streets.

Whether ultracapacitors really will take over the market now dominated by batteries, rather than merely supplementing them in it, remains to be seen—for batteries themselves are also getting better. They do have a chance, though, of being one of the 21st century's disruptive technologies. And even if they do not replace batteries entirely, the world will surely be seeing more of them in applications which need that little bit of extra oomph from time to time. After all, as Dr Schindall points out, animals use two types of muscle fibre: one for endurance and one for rapid movements. So it could make sense for machines to do the same.

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Diet and behaviour

Eat it up and be a good boy

Jan 31st 2008
From The Economist print edition

Prisoners benefit from dietary supplements; prisons might benefit, too

SUPPLEMENTS are all the rage: evening primrose oil; St John's wort; fish oils; glucosamine; selenium; zinc; iron; molybdenum; probiotics. And don't forget those old standbys, multivitamin tablets. It is hard to walk through a pharmacy without seeing a promise of clearer skin, a stronger immune system or less squeaky joints. But what about a pill or potion to make you better behaved?

That is exactly the intention of a study led by John Stein, a professor of neuroscience at Oxford University, that is about to start in three British prisons. Not only is there a growing body of evidence that good nutrition can improve behaviour, there is also a theoretical basis for supposing that a lack of essential nutrients has an impact on the way the brain works.

Dr Stein believes that the proper functioning of nerve-cell membranes and signalling molecules depends on adequate supplies of minerals, vitamins and fatty acids. To test the idea, his team will recruit 1,000 prisoners. Half of them will receive these supplements, while the others receive a placebo. Neither prisoners nor experimenters will know who got what until the trial is over.

The trial will replicate, on a larger scale, a study carried out by Natural Justice, a British charity, and published in the *British Journal of Psychiatry* in 2002. Then, 231 volunteers were given either capsules containing their official daily requirements of vitamins, minerals and essential fatty acids (such as omega-3s) or placebos. The trial lasted for nine months and during that time the number of offences committed by each prisoner was recorded. Those who received the extra nutrients committed an average of 26.3% fewer offences than those who got the placebo. For violent offences, the reduction was 37%.

Two years later a study in the Netherlands reached similar conclusions. Indeed, the number of disciplinary offences fell by almost half. Supplements were deemed so cost-effective that they would allow prison services to be improved at the same time as saving money.

Dr Stein's study will attempt to find out more details about how the supplements work. Blood samples will be taken and the levels of nutrients in these samples correlated with prisoners' “impulsivity” and the variability of their heart rates. Heart-rate variability, says Dr Stein, is a good index of the degree of control an individual has over his autonomic nervous system (which controls many of the internal organs). This in turn is a predictor of anti-social behaviour.

Although nobody is suggesting that diet is the only factor that determines whether someone will behave badly in prison, it is increasingly clear that a poor diet can make behaviour worse. Although nutritionists are often a little sniffy about dietary supplements, pointing out instead how important it is to eat the right food in the first place, there are corners of society in which people lack either the knowledge or the means to do so, or simply choose to eat poorly.

In British prisons, serving time in jail used to be known as “doing porridge”, because a bowl of oatmeal was an inmate's regulation breakfast. These days British prisoners have access to a far wider range of foods but nevertheless often make poor choices and consume diets that are far from ideal. So although prisoners, like anyone else, are well advised to choose a balanced diet, they may not pay much heed. Unless, of course, being forced to eat your greens becomes a standard part of a custodial sentence.

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Drug testing

The invisible man

Jan 31st 2008
From The Economist print edition

A new way of using computers to test drugs gets its first outing

NINE years ago a group of enthusiasts who were looking for signs of alien life in the universe had a bright idea. They would farm the task out to thousands of owners of personal computers by sending them chunks of data from radio telescopes, along with the software needed to look for intelligent signals. That idea caught on, and is now applied to many other things, including the search for promising drugs. Researchers at University College, London, are taking it a bit further. Instead of farming out their drug-testing project to the world's PCs and Macintoshes, they have gone for the jugular: the world's supercomputers.

The drug in question is saquinavir, one of a class known as protease inhibitors, which revolutionised the treatment of AIDS when they were introduced in 1996. Protease is a protein crucial to the life cycle of HIV, the AIDS-causing virus. However, as often happens, evolution has got to work and generated drug-resistant strains of the virus by modifying its protease. As they report in the *Journal of the American Chemical Society*, Peter Coveney and his colleagues wanted to investigate resistance to saquinavir by using a computer model to predict how it binds to the particular forms of protease produced by different resistant strains of HIV.

This is an important problem in its own right. But Dr Coveney's study was also a test of what is known as the Virtual Physiological Human (VPH). This is a project designed to simulate the human body—a huge undertaking that has, perforce, to be spread over many supercomputers of the sort more usually used to forecast the weather and model nuclear explosions.

Dr Coveney recruited both Britain's national supercomputer grid and America's TeraGrid for the endeavour and, encouragingly, the project worked. The results from the model match those from the real world, which increases confidence that predictions made by the VPH about other processes will also be accurate.

The hope is that as the VPH becomes more comprehensive, and as the price of computing power falls, it might be possible to use it to design patient-specific treatment regimes “on the fly”. Distributed computing may or may not find aliens. But it looks a good way to investigate that most alien creature of all: man.

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Linguistic evolution

Received pronunciation

Jan 31st 2008
From The Economist print edition

Languages and species evolve in surprisingly similar ways

ONE of the unresolved—and rather bitter—disputes in evolutionary biology is between the creeps and the jerks. The creeps (so dubbed by the jerks) think that evolutionary change is gradual. The jerks (so dubbed by the creeps) think it happens in sudden jumps that are separated by long periods of stasis.

Probably, both are true. Work done a couple of years ago by Mark Pagel of Reading University, in England, suggests that about a fifth of evolutionary change happens jerkily at around the time new species form. The rest creeps in gradually over the millennia.

Species, however, are not the only things that evolve. Languages do too. And in the current edition of *Science*, Dr Pagel and his colleagues publish evidence that they do so in a way which looks intriguingly similar to what happens in species.

There was already some historical evidence for this. The English of Geoffrey Chaucer (born in the 14th century), for example, is incomprehensible to modern laymen, whereas that of William Shakespeare (born in the 16th) is not only comprehensible but held by some to be a model. Dr Pagel, however, wanted to examine the question systematically and to include languages with no literary history in his analysis.

To do so he looked at three well-studied parts of the linguistic family tree: the Bantu languages of Africa, the Indo-European group from Eurasia and the Austronesians of the Pacific. In all three cases it is pretty clear how the branches connect up, even if it is not always obvious when particular splits occurred.

Dr Pagel did not, however, need to know that. He only needed to know the shape of the tree. That was because his hypothesis was that if linguistic evolution is jerky, the jerks will happen at the points where languages split—the equivalent of species splits in biological evolution. The way to test that is to track back along the branches leading from each existing language, and count the number of splits on each path before you get to the common ancestor of all.

His hypothesis turned out to be correct. Languages are formed not, it seems, by a gradual drifting apart of two groups who no longer talk to each other, but by violent rupture. Around a third of the vocabulary differences between modern Bantu speakers arose this way, around a fifth of the differences between speakers of Indo-European languages, and around a tenth of the Austronesians. That compares with around a fifth for biological species.

All this suggests that the formation of both languages and species is an active process. For species, adaptations to novel environments and the need to avoid crossbreeding with those on the other side of the split are both plausible hypotheses. For languages, the explanation may be a cultural rather than biological need to distinguish populations. As Noah Webster, the compiler of the first American dictionary, put it: “as an independent nation, our honor [sic] requires us to have a system of our own, in language as well as government.” In other words, if you don't speak proper, you ain't one of us.

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The Richard Casement internship

Jan 31st 2008
From The Economist print edition

We invite applications for the 2008 Richard Casement internship. This is for a would-be journalist to spend three months of the summer working on the newspaper in London, writing about science and technology. Our aim is more to discover writing talent in a science student or scientist than scientific aptitude in a budding journalist. Applicants should write a letter introducing themselves, along with an original article of about 600 words that they think would be suitable for publication in the science and technology section. They should be prepared to come for an interview in London or New York, at their own expense. A small stipend will be paid to the successful candidate. Applications must reach us by February 22nd. They should be sent to: casement2008@economist.com

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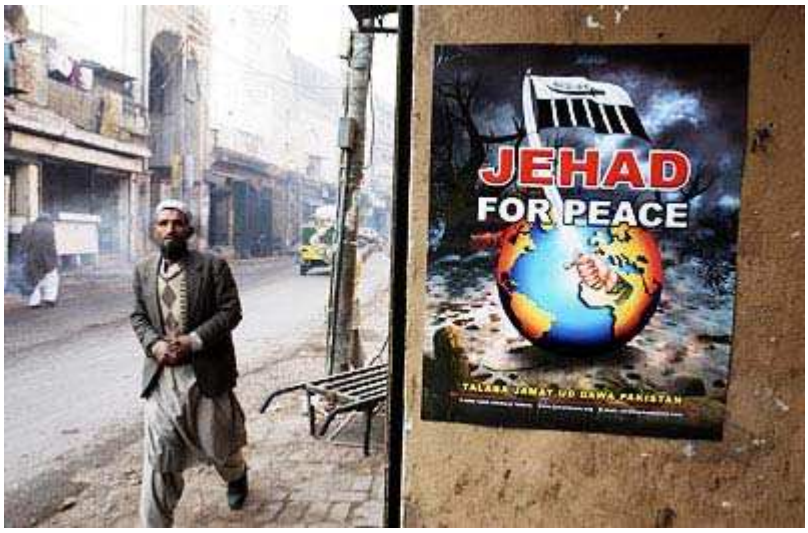
Al-Qaeda

How jihad went freelance

Jan 31st 2008
From The Economist print edition

Panos



Al-Qaeda has evolved from a single group to an amorphous movement. Does that make it less dangerous or more so?

TERRORISTS are a bit like you and me, or so Marc Sageman suggests. It might be comforting to think that angry young Islamists are crazed psychopaths or sex-starved adolescents who have been brainwashed in malign *madrassas*. But Mr Sageman, a senior fellow at the Philadelphia-based Foreign Policy Research Institute, explodes each of these myths, and others besides, in an unsettling account of how al-Qaeda has evolved from the organisation headed by Osama bin Laden into an amorphous movement—a "leaderless *jihad*".

Mr Sageman is a leading advocate of what is called the "buddy" theory of terrorism. He has spent much time asking why well-educated young men, from middle-class backgrounds, often with a secular education and wives and children, become suicide bombers. He suggests that radicalisation is a collective rather than an individual process in which friendship and kinship are key components.

The process has four stages. The initial trigger is a sense of moral outrage, usually over some incident of Muslim suffering in Iraq, Palestine, Chechnya or elsewhere. This acquires a broader context, becoming part of what Mr Sageman calls a "morality play" in which Islam and the West are seen to be at war. In stage three, the global and the local are fused, as geopolitical grievance resonates with personal experience of discrimination or joblessness. And finally the individual joins a terrorist cell, which becomes a surrogate family, nurturing the jihadist world-view and preparing the initiate for martyrdom. Many Muslims pass through the first three phases; only a few take the final step.

Mr Sageman has unusual credentials: a former CIA officer, he is also a forensic psychiatrist and a counter-terrorism consultant. He published the first version of his theory three years ago in an influential book, "Understanding Terror Networks". His aim, to put the study of this new kind of terrorism on to a scientific footing, has not changed. But al-Qaeda has, and the task of analysing it has become more complex.

Leaderless Jihad: Terror Networks in the Twenty-First Century
By Marc Sageman

University of Pennsylvania Press; 208 pages; $24.95 and £16.50

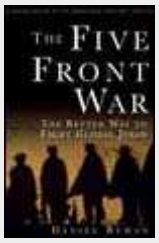
Buy it at
Amazon.com
Amazon.co.uk

The Five Front War: The Better Way to Fight Global Jihad
By Daniel Byman

In his new book Mr Sageman's sample of militants has grown from 172 to 500. He gives more prominence to Europe, where, after the London and Madrid bombings and other thwarted attempts, a new front-line has opened up. He devotes a chapter to the internet. Crucially, he argues that most of today's suicide bombers have little or no link with the original al-Qaeda (dubbed “al-Qaeda central”) but are part of a broader, more amorphous phenomenon which he calls the “al-Qaeda social movement”. Mr Sageman is sceptical of the view, which gathered weight last year, that “al-Qaeda central” is resurgent. Rather, it is the mutual attraction of freelance jihadists, outraged by the Iraq war and increasingly mobilised online, which should worry us most.

Like others, Mr Sageman believes the Iraq war, which appeared to legitimise the idea of a rapacious West in conflict with Islam, was a spectacular own-goal for America. Unless that idea can be successfully countered, he says, America may find itself confronting not just a terrorist fringe but a substantial segment of the Muslim world, which would intensify and prolong the conflict to disastrous effect. A successful hearts-and-minds campaign, on the other hand, would stiffen moderate spines and help take the glory out of jihadism; eventually, “the leaderless *jihad* [would] expire, poisoned by its own toxic message.” It is an optimistic conclusion, given all that has gone before.

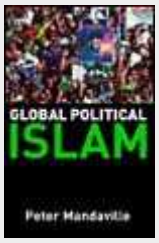
There is much common ground between Mr Sageman and Daniel Byman, a counter-terrorism expert at Georgetown University and the Brookings Institution who was at one time on the staff of the National Commission on Terrorist Attacks upon the United States (also known as the 9-11 Commission). He too laments the Bush administration's lack of a coherent strategy, the needless alienation of allies, the failure to win Muslim hearts and minds, and the deadly fall-out from Iraq. Both authors believe that in the war of ideas Americans should focus on jihadist brutality rather than trying to burnish their own image. Both regard Europe as the main battleground, and they also question just how useful democratisation can be as a tool of counter-terrorism; indeed Mr Sageman believes it is entirely irrelevant.



Wiley; 320 pages; $25.95 and £13.99

Buy it at
Amazon.com
Amazon.co.uk

Global Political Islam
By Peter Mandaville



Routledge; 408 pages; $43.95 and £21.99

Buy it at
Amazon.com
Amazon.co.uk

Mr Byman argues that America must do better on five fronts: the military, the war of ideas, intelligence, homeland defence and, in a nuanced way, democratic reform. Many of his policy proposals are eminently sensible, though some people will decry his advocacy of Israeli-style targeted killings. But where Mr Sageman is plain spoken, Mr Byman is often hesitant and diffuse. He has a disconcerting knack of undercutting his own arguments. Moreover, his remorseless concentration on prescription, with a minimum of explanatory background, will put off all but the most dedicated experts.

Counter-terror specialists are seldom knowledgeable about the intricacies of modern Islam, and vice versa. Those looking for a reliable guide to the currents of political Islam, of which al-Qaeda-style jihadism is but one, could do worse than turn to a young American scholar, Peter Mandaville, an associate professor at George Mason University, near Washington, DC. Mr Mandaville's primer, “Global Political Islam”, is a well-informed account of the origins of mainstream Islamism, the strategies of Islamisation, the emergence of the radical fringe, the competition for authority among Muslim elites and the impact of globalisation on Muslim politics. This is a study which sets out to transcend the “narrow moment” of al-Qaeda. Given our current obsession with global *jihad*, this book is a welcome companion to Mr Sageman's work.

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By Marc Sageman.
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Social entrepreneurs

Agents of change

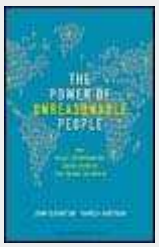
Jan 31st 2008
From The Economist print edition

GO TO any recent meeting of the World Economic Forum (WEF), including the one in Davos, Switzerland, last week, and you cannot fail to be struck by the yearning in the corporate world to be a good environmental citizen—provided that it does not cost the earth. Gloomy lectures on climate change are packed, and copies of heartening books on how to turn greenery into gold are in much demand.

Quite what readers will learn, though, from this work by an environmental consultant and a WEF stalwart, is harder to fathom—even if a copy was handed out free to every delegate at Davos last week. The book sketches briefly the activities of many people who have found ways to improve the lives of others. Many have created laudable projects. Some have made money, and a few have become substantial employers, or founded large businesses. But the problems of social entrepreneurship soon emerge.

An obvious one is the difficulty of raising money. If you are setting out to save the world rather than to make a profit, it is perhaps not surprising that financial institutions are less likely to give you money than your friends and family, or trusts and foundations. It is all very well for the authors to point out that "all enterprises—including the most profit-hungry mainstream ventures—start out as nonprofits." If the business plan does not set profitability as a goal, then investors are likely to see it as philanthropy, not investment.

The Power of Unreasonable People: How Social Entrepreneurs Create Markets That Change the World
By John Elkington and Pamela Hartigan



Harvard Business School Press; 272 pages; $27.50 and £15.99

Buy it at
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More worrying, though, is the fact that both for-profit and non-profit social enterprises seem so rarely to grow large or to be replicated on a big scale. One survey found that only 144 of the 200,000 non-profit enterprises founded in America since 1970 had reached more than $50m in annual revenue; another, that 75% of a sample of American for-profit social and environmental enterprises had fewer than 25 fulltime employees.

The solution for which the authors clearly yearn is a different world. "Like it or not [and they clearly like it], the world is in the early stages of powerful, deep-running and pervasive changes that will transform its economics, its cultures and people's understanding of who they are and what they stand for." Well, maybe. But those changes may not necessarily make life easier for the "unreasonable man" who (quoting George Bernard Shaw) "persists in trying to adapt the world to himself".

And some of these unreasonable people may succeed in changing the world in ways that nobody at last week's Davos meeting would have advocated. "Increasingly," say the authors, "small groups of people use multiple kinds of leverage to drive change on a disproportionate scale." Tucked away in a footnote to that sentence is the name Osama bin Laden, a social entrepreneur who has used his leverage all too effectively.

The greatest agents for sustainable change are unlikely to be the well-intentioned folk described in this book, interesting though they are. They are much more likely to be the entirely reasonable people, often working for large companies, who see ways to create better products or reach new markets, and have the resources to do so. Ratan Tata, with his one-lakh car, may improve more lives than any social entrepreneur has done. And he might even make money from doing so.

The Power of Unreasonable People: How Social Entrepreneurs Create Markets That Change the World. By John Elkington and Pamela Hartigan.
Harvard Business School Press; 272 pages; $27.50 and £15.99

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Mathematics

Mirror games

Jan 31st 2008
From The Economist print edition

SYMMETRY has been a source of fascination since ancient times. In Plato's "Symposium", Aristophanes argues that the origins of love lie in the search for symmetry, while Pythagoras and Theaetetus—who discovered the icosahedron, the geometric shape with 20 triangular faces—explored the symmetries of geometric figures.

But it was not until the 19th century that mathematicians such as Evariste Galois, an unhappy French genius, discovered symmetries hidden in the solutions to mathematical equations. In his new book, Marcus du Sautoy, a professor of mathematics at Oxford University, gives a fascinating account of the long quest to unearth the mathematics of symmetry.

Geometric symmetry can be understood as a property of shapes that remain unchanged despite being twisted or flipped—the letter H looks the same after being given a half turn; Y looks the same in a mirror. Other, more abstract objects—the shuffle of a pack of cards, the forces that govern our universe—can likewise be thought of as symmetrical if they remain unchanged after mathematical operations analogous to twisting and flipping. But studying such symmetries required a whole new language. A crucial step here was made by Arthur Cayley, a Victorian mathematician who showed that the symmetries of any object could be described by a mathematical structure known as a symmetry group.

Finding Moonshine: A Mathematician's Journey Through Symmetry
By Marcus du Sautoy

To be published in America as "Symmetry: A Journey into the Patterns of Nature" by Harper in March Fourth Estate; 376 pages; £18.99.

Buy it at
Amazon.com
Amazon.co.uk

This was the beginning of an important mathematical quest: to understand and classify all possible types of symmetry. Much as every integer can be broken down into a product of prime numbers, the symmetries of any object can be constructed from a collection of basic building blocks known as simple groups. The challenge for mathematicians became how to classify the complete set of these simple groups. For a while it looked as if almost all of them would fall into a few straightforward families, leading Leonard Dickson, an American mathematician, to declare in the 1920s that group theory was dead. This turned out to be premature.

In 1965 a new simple group (with 175,560 symmetries) was discovered which did not fit into any of the standard families. This kicked off a mathematical gold rush. Over the next ten years 26 new simple groups were found. These did not seem to belong to large families, but were isolated examples, and so became known as sporadic groups. The largest is called the "Monster" and is impressively huge: a number with 54 digits, describing the symmetries of a 196,883-dimensional "object".

In the 1980s the quest was finished. All the sporadic groups had been found, and the classification was shown to be complete. This huge accomplishment resulted in a proof running to some 10,000 pages across 500 journals. It is still being checked.

Alongside the mathematical story is an equally fascinating personal one. Mr du Sautoy's own work involves the study of symmetry, and he gives an illuminating account of the life of a mathematician. Each of the 12 chapters charts a month in his life, detailing the joys of mathematical discovery and the frustrations of mathematical research. He describes how he became a mathematician, and talks about the challenge of interesting his nine-year-old son in the beauties of mathematics.

"Finding Moonshine" is full of insight into the nature of symmetry and the people who study it. It makes for a fascinating and absorbing read.

Finding Moonshine: A Mathematician's Journey Through Symmetry.

By Marcus du Sautoy.
Fourth Estate; 376 pages; £18.99.
To be published in America as “Symmetry: A Journey into the Patterns of Nature” by Harper in March

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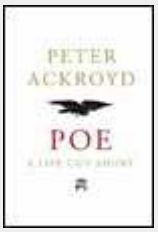
Edgar Allan Poe

The blasted soul

Jan 31st 2008
From The Economist print edition

EDGAR ALLAN POE once said that a single “very little book” could “revolutionise...human thought”. Peter Ackroyd has written more than two dozen books, both fiction and non-fiction, short and long (his “Dickens” is as good a doorstop as any). This very little book about Poe is hardly revolutionary but its style suits its subject. Poe's sense of the dramatic was unmatched. Mr Ackroyd's biography of the writer who died at the age of 40 after an alcoholic bender is almost as vivid and flawed as Poe himself.

Poe: A Life Cut Short
By Peter Ackroyd



Chatto & Windus; 170 pages; £15.99

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Tennyson described Poe the writer as “the most original genius America has produced”. Poe the man, Mr Ackroyd tells us, “has become the image of the *poète maudit*, the blasted soul, the wanderer.” Far from dispelling that image, he embellishes it. “His fate was heavy,” Mr Ackroyd writes, “his life all but insupportable”. The huge statements in this pocket-sized book could pop the seams of one's trousers.

Mr Ackroyd begins with Poe's mysterious death in Baltimore in 1849, honouring the detective genre Poe helped invent. He then returns to 1809, the year Poe was born in Boston. Poe's father left two years later; his mother died of consumption soon after. Mr Ackroyd places much importance on these early days. In one particularly acrobatic leap, he hints that Poe's time in his mother's sickly womb led him to write about claustrophobia.

The young Poe was adopted by the Allans of Richmond, Virginia. His relationship with his adopted father dissolved over time, as he flitted from university to West Point Academy; in the end Poe resolved simply to write.

The result was almost perpetual poverty. Poe's stints at various journals usually ended badly, due to his drunken binges. But he was not without critical success. His stories masterfully explored readers' nightmares. His tales of the macabre, with death and beauty closely intertwined, were admired by many editors. In 1845 his poem “The Raven” made him famous. He also earned notoriety as a critic, and Mr Ackroyd has found some of his best insults. “A pumpkin has more angles”, Poe wrote of one editor. “He is noticeable for nothing in the world except for the markedness by which he is noticeable for nothing.”

Poe was a master at making enemies but he also craved praise and female companionship, though not necessarily sex. Mr Ackroyd insists repeatedly that Poe sought women who resembled his dying mother. In 1836 he married his cousin Virginia, whose illness supposedly made her more appealing to him.

This is not a comprehensive biography, nor is it meant to be. But Mr Ackroyd is especially good at conveying Poe's precarious state, ever on the brink of self-destruction. For a man who claimed an “ecstatic prescience of the glories beyond the grave”, it was a fitting existence.

Poe: A Life Cut Short.
By Peter Ackroyd.
Chatto & Windus;170 pages; £15.99

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Collecting art

Not just an eye for a bargain

Jan 31st 2008
From The Economist print edition

ART addicts will gather in London next week to get their fix when Sotheby's and Christie's sell impressionists and contemporary pictures by the hundreds. Market analysts will also be watching closely. Last November, when both auction houses held the year's biggest impressionist and modern art sales in New York, Sotheby's fell well short of its estimate and Christie's did less well than hoped. Economic and financial clouds have thickened since then, and there are fewer bonuses to spend on art. But many collectors will still turn up, motivated by passion rather than money.

Why do people collect, many will be asking themselves? Kenneth Clark, a British grandee in the art world of the 20th century, thought it was like asking why people fall in love: the reasons were various. This book, surveying about 130 eminent art collectors and collections since the second world war, bears him out. From banker to couturier, from civil servant to tycoon, they are a group of fascinating diversity with a wide array of tastes.

Great Collectors of Our Time: Art Collecting Since 1945
By James Stourton

Scala; 416 pages; $75 and £45

Buy it at
Amazon.com
Amazon.co.uk

Some are flamboyant, some reclusive. A surprising number come in couples. Quite a few are scions of art-collecting dynasties. Many are artists or dealers as well as collectors, and often they become friends with the artists they champion (Picasso liked to have a particularly large coterie of collectors around him). A disproportionate number are Jewish. Many collectors started buying when they were very young, some later in life, and at least one of those featured in the book not until he reached his 80s.

“Great wealth is unquestionably an assistance in collecting,” says the author, who as chairman of Sotheby's British arm meets a fair number of rich individuals. But some of his subjects started off with few financial advantages. Take Dorothy and Herb Vogel, a quiet New York couple, he a post office clerk, she a librarian, who over the years acquired around 4,000 pieces of mainly minimal and conceptual art, some of which now hang in the National Gallery of Art in Washington, DC. Or consider James Hooper, whose day job was with Thames Conservancy, the body that used to manage the river in south-east England, but whose real passion was searching for tribal art in the junk shops of the Thames valley. He never went near the places where his trophies came from.

Collectors try to get in before the object of their passion has been discovered by the world at large. Typically they are buying a generation ahead of the market, which explains how people of relatively modest means have managed to build up collections that have since become immensely valuable.

But most of the book is about those who either started off very rich or made a fortune and then spent much of it on art: people like the Rothschilds, the Sainsburys, Peter Ludwig and Charles Saatchi in Europe, or Peggy Guggenheim, the Rockefellers, the Mellons and J. Paul Getty in America, and a few famous collectors in Hong Kong, Taiwan and Japan. This is a glamorous, colourful and often eccentric crowd. Mr Stourton met most of them, was shown round their collections and sumptuous houses and came away with lots of excellent stories, as well as a number of insights about what makes the art world tick.

Before the second world war, collectors mostly gloated over their treasures in private. These days they have more of a sense of public mission, and most of them exhibit, lend or catalogue their possessions or even give them away.

As fashions in collecting since the war have swung from old masters, English 18th-century art and artefacts and 19th-century impressionists to contemporary art, some of the collectors may have had little choice: a lot of the modern stuff is too big or unwieldy to be displayed within even the grandest

apartment.

Are collectors just magpies, or is there something creative in the act of collecting itself? Some are self-confessed omnivores, others become deeply knowledgeable about their chosen field and exercise great taste and discipline in putting their collections together. But many feel, as Henri Focillon, an art historian, once put it, that the collector creates “from the genius of others a nectar which belongs to him alone”.

Great Collectors of Our Time: Art Collecting Since 1945.
By James Stourton.
Scala; 416 pages; $75 and £45

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Sexual fantasies

Secret cinema

Jan 31st 2008
From The Economist print edition

ASKING strangers to recount their most private thoughts about sex is unlikely to make a dull book, and Brett Kahr's compendious research into the psychology of sexual fantasy is gripping. It is also somewhat alarming.

Leave it open on your desk at work, and prudish colleagues or bosses may think your reading matter highly unsuitable. If you have children, it is not the sort of thing (unless you are very modern-minded) that you would leave around at home. In particular, the middle section is unsparingly explicit about every possible sort of erotic daydream. It includes sentences such as “let us immerse ourselves in some representative incest fantasies”. (Let's not, some readers may feel.)

Not that it is all so hair-raising. Some people, not unexpectedly perhaps, fantasise about celebrities. A handful imagine romantic tenderness with their real-life partners. But many of those surveyed say they like thinking about doing disgusting things with, to, or in front of, total strangers, or (perhaps more unsettlingly) the people they love.

The case studies are not dirty stories, however. They are part of a big, solemnly academic, five-year research project. Mr Kahr, a London-based academic and therapist, surveyed (anonymously) 18,000 people in Britain and America in conjunction with YouGov, an internet pollster, and conducted 132 five-hour interviews. The upshot is that nine out of ten people have sexual fantasies, mostly pretty lurid ones—and Mr Kahr thinks the remaining tenth are crippled by shame, guilt or repression.

Any sense of prurience is relieved by Mr Kahr's prose, which is sympathetic, witty and erudite. He quotes Latin tags and Italian opera confidently, and wears his psychoanalytical learning fairly lightly. Blessed with what he calls “a strong psychological digestive tract”, he is not the sort of person to run shrieking from the room in horror, or to phone the police, when he finds out that someone confesses to relaxing by thinking about extreme sexual violence towards unsuspecting strangers. Instead, he tries to work out why so many people find sexual fantasy so important.

A lay person might count boredom and natural weirdness as the most likely fuel for fantasies. But Mr Kahr focuses on nasty experiences in the past. Fantasies are a way of rewriting childhood history, sometimes to wreak revenge on abusive or absent adults, sometimes to sanitise memories of them. A woman was attacked from behind as a small girl by her mother, who smashed her head into a glass table. As an adult, her fantasy is about having her breasts caressed by a faceless stranger who reaches over her head.

The guts of the book are to be found in the final chapter, where Mr Kahr answers the 21 questions he poses at the outset. These include the empirical, such as the definition, purpose and prevalence of sexual fantasy, and more ticklish dilemmas. Should one confess fantasies to a partner? (Probably not.) Are fantasies a sign of a relationship in trouble? (Not necessarily; they may be a safety valve.) And do we control our fantasies, or vice versa? (For most people, it's a bit of both.) Best think twice, though, before suggesting this for your book club.

Who's Been Sleeping in Your Head?: The Secret World of Sexual Fantasies.
By Brett Kahr.
Basic Books; 304 pages; $28

Who's Been Sleeping in Your Head?: The Secret World of Sexual Fantasies
By Brett Kahr

Basic Books; 304 pages; $28.
Published in Britain as “Sex and the Psyche: The Truth About Our Most Secret Sexual Fantasies”; Allen Lane; £12.99

Buy it at
Amazon.com
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Suharto

Jan 31st 2008
From The Economist print edition

Reuters

Suharto, a former dictator of Indonesia, died on January 27th, aged 86

IN THE summer of 1998, just after the fall of President Suharto, the United States Treasury detected some odd movements of large sums of money, allegedly $9 billion, to a bank in Austria. The money was his. Or rather it was a small part of the billions he was said to have screwed out of Indonesia between 1966 and 1998, when he had held absolute power there. At one point Mr Suharto was the sixth-richest person in the world. Indonesia—though he had modernised this sprawling mass of archipelagoes and islands, paved it, brought foreign investors in and promoted an economic boom—was the poorer.

Only $16 billion of the total, more or less, was his personal fortune. The rest had been selflessly distributed to his wife, six children, half-brother and grandsons in the form of licences and monopolies, usually handed out for nothing. His wife Tien held, through the Bogasari flour mills, the state monopoly on the import and milling of wheat. Tommy, a son, controlled the clove trade. Tutut, a daughter, had a grip on the toll-roads; Bambang, another son, held the licence for mobile phones. TV networks were slipped like sweets to various relations. Those who had cheered Mr Suharto's first ventures in economic policy in the 1960s, breaking up decrepit state monopolies and inviting foreigners in, could only watch in horror as privatisation took a predictable course.

By training and instinct, Mr Suharto was a soldier. He lived, he said, by short, sharp aphorisms—“Don't be troubled, don't be surprised, don't be arrogant”—and by simple loyalties, to God, teachers and the government. His formative twenties and thirties were spent fighting the Dutch colonial powers in the Javanese jungle. But, by Indonesian tradition, he had to pay his own troops and provide for them on demobilisation. His early lessons in enforcing obedience were therefore closely bound up with the founding of business ventures and the smuggling of opium and sugar. Power and money went together.

The army also formed him in other ways. His family background was disrupted and shadowy, possibly associated with Javanese aristocracy on the wrong side of the blanket; he prodded water buffaloes through the rice-fields, but also received a suspiciously good education. He did not quite belong among the other village boys, and was restless. The Dutch Military Academy, which he entered at 17, introduced him to European colonialism, Indonesian nationalism and, eventually, to the global ideological split between right and left. The world became clear.

Indonesia's first president, Sukarno, represented the natural leftist tendencies of a country released from foreign rule. Suharto never took that path. From officer to chief of the strategic reserve he was a man of the right, and the killing of six right-wing generals in 1965 prompted his coup d'état. He began a

campaign to “clean up” the government by removing communists and Sukarno loyalists, or killing them. Sukarno was persuaded to invest him with emergency powers and then, politely but firmly, was made to stand aside.

The better to winkle out the communists, Suharto set up two intelligence agencies. This affection for spying also dated from army days. His principal lesson from military service, though, was that insubordination was not to be tolerated. Press censorship was introduced as soon as he came to power, and was steadily tightened. “Insulting the president” became a crime punishable with several years in jail. Riots were bloodily put down. No places suffered more than distant, rebellious provinces: East Timor, where an Indonesian invasion to squash the left-wing Fretilin cost 200,000 lives, and Aceh, where unrest from the mid-1970s onwards led to hundreds of killings and disappearances.

The private, inner Suharto was very rarely seen. He was a man for podiums and banknotes. Javanese mysticism supposedly interested him; certainly he kept Islamist extremism in check. He was so furious when the head of Pertamina, the state oil company, bunked off from an ASEAN conference to play golf with President Marcos of the Philippines, that he fired him within days; but no one knew whether this was for bad behaviour, or because he had wanted to play golf himself.

Falling with the rupiah

There were some things to thank him for. His unrelenting grip held the scattered country together, allowed development to take hold and made Indonesia more prominent in the world. His solid anti-communism ensured that America was an investor and a friend until, with the end of the cold war, the rotten underside of his rule could no longer be strategically ignored. Under the advice of a band of economists known as the “Berkeley Mafia”, enough of a market economy emerged to allow the country to prosper until, in 1998, Asia's financial crisis sent the rupiah diving and, with it, despite a seventh landslide “election” victory, the president.

He went obediently, handing over to his eccentric protégé Bacharuddin Jusuf Habibie. Half-hearted efforts to prosecute started and were dropped. He stayed out of sight in a small part of the 100,000 square metres of prime space he owned in Jakarta, with his jewels and art and cars and shares and copper-mine concessions, none of which he could take with him.

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Overview

Jan 31st 2008
From The Economist print edition

The **Federal Reserve** lowered its benchmark interest rate by half a percentage point, to 3%. It said the effect of this and earlier cuts "should help to promote moderate growth over time", but hinted that further interest-rate cuts would be needed to address the downside risks to America's economy.

America's GDP rose at an annualised rate of just 0.6% in the fourth quarter, held back by another fall in housing investment and a sharp drop in inventories. The S&P/Case-Shiller house-price index that covers 20 large cities fell by 7.7% in the year to November. New home sales fell by 4.7% in December to their lowest level since 1995.

Japan's industrial production rose by 1.4% in December, reversing a sharp fall the previous month. Consumer prices excluding fresh food, the measure watched by the central bank, rose by 0.8% in the year to December.

Poland's central bank raised its main interest rate by a quarter of a percentage point, to 5.25%, because of fears that a fast-growing economy will keep inflation above the bank's target of 2.5%.

In Britain, the number of mortgages approved for house purchase fell to 73,000, the fewest since July 1995.

Consumer prices in the **euro area** rose by 3.2% in the year to January, according to a preliminary estimate, slightly faster than December's 3.1%. The unemployment rate was stable at 7.2% in December.

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Output, prices and jobs

Jan 31st 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q4	+0.6	+1.8	+2.6	+1.5 Dec	+4.1 Dec	+2.5	+2.8	5.0 Dec
Japan	+1.9 Q3	+1.5	+1.4	+1.9	+0.7 Dec	+0.7 Dec	+0.3	+0.3	3.8 Dec
China	+11.2 Q4	na	+10.1	+9.6	+17.4 Dec	+6.5 Dec	+2.8	+3.5	9.5 2007
Britain	+2.9 Q4	+2.4	+1.9	+2.2	+0.4 Nov	+2.1 Dec§	+3.0	+2.1	5.3 Nov††
Canada	+2.9 Q3	+2.9	+1.9	+2.5	+0.8 Oct	+2.4 Dec	+1.7	+1.9	5.9 Dec
Euro area	+2.7 Q3	+2.8	+1.8	+2.0	+2.7 Nov	+3.2 Jan	+1.8	+2.3	7.2 Dec
Austria	+3.3 Q3	+3.0	+2.6	+2.6	+1.1 Nov	+3.6 Dec	+1.5	+2.1	4.3 Nov
Belgium	+2.6 Q3	+2.2	+2.0	+2.0	+3.2 Nov	+3.5 Jan	+1.7	+2.0	10.8 Dec‡‡
France	+2.2 Q3	+3.2	+1.8	+2.0	+2.5 Nov	+2.6 Dec	+1.5	+2.0	7.9 Q3§§
Germany	+2.5 Q3	+2.8	+1.9	+2.1	+3.5 Nov	+2.7 Jan	+1.6	+2.1	8.1 Jan
Greece	+3.8 Q3	+3.6	+2.4	+2.5	+3.6 Nov	+3.9 Dec	+2.9	+3.3	7.9 Oct
Italy	+1.9 Q3	+1.7	+1.3	+1.5	−2.4 Nov	+2.6 Dec	+1.9	+2.3	5.9 Q3
Netherlands	+4.2 Q3	+7.5	+2.1	+2.2	+1.8 Nov	+1.9 Dec	+1.3	+2.0	4.1 Dec††
Spain	+3.8 Q3	+2.9	+2.4	+2.3	−0.6 Nov	+4.2 Dec	+2.7	+3.1	8.2 Nov
Czech Republic	+6.0 Q3	+5.8	+4.8	+5.3	+6.7 Nov	+5.4 Dec	+1.7	+5.4	6.0 Dec
Denmark	+1.7 Q3	+6.7	+1.6	+1.7	−1.9 Nov	+2.3 Dec	+1.8	+2.0	2.7 Dec
Hungary	+1.0 Q3	+1.2	+3.0	+3.7	+5.5 Nov	+7.4 Dec	+6.5	+4.5	7.7 Dec††
Norway	+3.1 Q3	+5.6	+2.9	+2.6	+2.0 Nov	+2.8 Dec	+2.2	+2.4	2.5 Nov††
Poland	+6.4 Q3	na	+5.2	+4.4	+6.2 Dec	+4.0 Dec	+1.4	+3.6	11.4 Dec‡‡
Russia	+7.8 Q3	na	+6.7	+5.7	+6.5 Dec	+11.9 Dec	+9.0	+11.5	6.1 Dec‡‡
Sweden	+2.5 Q3	+2.4	+2.7	+2.6	+4.2 Nov	+3.5 Dec	+1.6	+2.6	5.6 Dec‡‡
Switzerland	+2.9 Q3	+1.3	+2.0	+2.0	+10.7 Q3	+2.0 Dec	+0.6	+1.4	2.6 Dec
Turkey	+1.5 Q3	na	+3.8	+5.2	+7.7 Nov	+8.4 Dec	+9.7	+8.1	9.2 Q3‡‡
Australia	+4.3 Q3	+4.1	+3.6	+3.4	+1.6 Q3	+3.0 Q4	+3.3	+3.2	4.3 Dec
Hong Kong	+6.2 Q3	+7.0	+4.8	+5.4	−2.1 Q3	+3.8 Dec	+2.3	+3.9	3.4 Dec††
India	+8.9 Q3	na	+7.7	+7.2	+5.3 Nov	+5.5 Nov	+6.3	+6.1	7.2 2007
Indonesia	+6.5 Q3	na	+6.1	+5.7	+2.0 Nov	+6.6 Dec	+6.6	+6.4	9.8 Feb
Malaysia	+6.7 Q3	na	+5.7	+5.9	+2.7 Nov	+2.4 Dec	+3.1	+2.8	3.1 Q3
Pakistan	+7.0 2007**	na	+5.4	+5.4	+9.8 Oct	+8.8 Dec	+8.9	+7.9	6.2 2006
Singapore	+6.0 Q4	−3.2	+4.9	+4.7	−1.7 Dec	+4.4 Dec	+0.8	+3.0	1.7 Q3
South Korea	+5.5 Q4	+6.3	+4.6	+4.6	+12.4 Dec	+3.6 Dec	+2.1	+2.9	3.1 Dec
Taiwan	+6.9 Q3	na	+4.5	+4.0	+10.7 Dec	+3.3 Dec	+0.7	+2.3	4.0 Dec
Thailand	+4.9 Q3	+6.3	+4.8	+4.1	+11.6 Dec	+3.2 Dec	+3.5	+3.2	1.1 Nov
Argentina	+8.7 Q3	+11.7	+6.2	+4.7	+8.3 Nov	+8.5 Dec	+9.8	+11.4	7.5 Q4‡‡
Brazil	+5.7 Q3	+6.9	+4.5	+4.1	+6.7 Nov	+4.5 Dec	+3.1	+4.5	7.4 Dec‡‡
Chile	+4.1 Q3	−2.5	+4.5	+5.0	+4.2 Nov	+7.8 Dec	+2.6	+5.4	7.3 Nov††††
Colombia	+6.6 Q3	+6.9	+5.5	+4.5	+7.4 Nov	+5.7 Dec	+4.5	+5.0	9.4 Nov‡‡
Mexico	+3.7 Q3	+5.9	+2.7	+3.4	+0.8 Nov	+3.8 Dec	+4.1	+4.1	3.4 Dec‡‡
Venezuela	+8.7 Q3	na	+4.9	+3.9	+2.7 Sep	+22.5 Dec	+17.0	+24.0	8.5 Q3‡‡
Egypt	+6.9 Q3	na	+7.3	+6.7	+7.5 2007**	+6.9 Dec	+12.4	+6.6	8.8 Q3‡‡
Israel	+4.8 Q3	+6.1	+4.1	+4.6	+2.5 Nov	+3.4 Dec	−0.1	+2.8	7.3 Q3
Saudi Arabia	+4.3 2006	na	+6.0	+5.6	na	+6.5 Dec	+2.9	+5.0	na
South Africa	+5.1 Q3	+4.7	+4.7	+5.4	+4.4 Nov	+9.0 Dec	+5.8	+6.6	25.5 Mar‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+6.4 Q3	+7.4	+4.3	+4.7	+4.4 Nov	+9.6 Dec	+5.1	+8.2	5.4 Oct
Finland	+4.1 Q3	+3.0	+3.1	+2.8	+2.6 Dec	+2.6 Dec	+2.2	+2.2	6.7 Dec
Iceland	+4.3 Q3	+9.9	+2.3	+2.8	+7.6 2006	+5.9 Jan	+6.9	+4.6	0.8 Dec‡‡
Ireland	+4.1 Q3	+5.6	+2.8	+2.9	+16.3 Nov	+4.7 Dec	+4.9	+3.0	4.7 Dec
Latvia	+10.9 Q3	na	+6.6	+6.5	+1.1 Nov	+14.1 Dec	+6.8	+10.5	5.4 Nov
Lithuania	+7.9 Q4	−4.3	+7.4	+6.5	na	+8.1 Dec	+4.5	+6.4	4.3 Dec‡‡
Luxembourg	+5.6 Q3	+2.8	+4.4	+4.8	−1.3 Oct	+3.4 Dec	+2.3	+2.3	4.4 Nov‡‡
New Zealand	+3.4 Q3	+1.1	+2.1	+2.7	+1.3 Q3	+3.2 Q4	+2.6	+2.6	3.5 Q3
Peru	+10.4 Oct	na	+6.5	+6.8	+11.5 Nov	+3.9 Dec	+1.1	+2.7	8.0 Nov‡‡
Philippines	+7.3 Q4	+7.4	+5.3	+5.4	−2.9 Nov	+3.9 Dec	+4.3	+3.5	6.3 Q4‡‡
Portugal	+1.8 Q3	−0.1	+2.0	+2.2	−0.9 Dec	+2.7 Dec	+2.5	+2.3	7.9 Q3‡‡
Slovakia	+9.4 Q3	na	+7.0	+5.7	+13.2 Nov	+3.4 Dec	+4.2	+2.7	8.0 Dec‡‡
Slovenia	+6.3 Q3	na	+4.8	+4.0	+2.4 Nov	+5.6 Dec	+2.8	+3.4	7.3 Nov‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.0% in Dec. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

Jan 31st 2008
From The Economist print edition

The Economist commodity-price index

2000=100

	Jan 22nd	Jan 29th*	% change on one month	% change on one year
Dollar index				
All items	226.0	232.4	+6.4	+25.7
Food	226.9	231.3	+7.1	+48.7
Industrials				
All	224.8	233.7	+5.5	+4.8
Nfa†	181.5	183.4	+1.8	+18.2
Metals	248.5	261.3	+7.0	+0.5
Sterling index				
All items	174.8	177.3	+6.6	+24.0
Euro index				
All items	143.0	145.5	+5.3	+10.3
Gold				
$ per oz	892.60	926.75	+10.8	+43.5
West Texas Intermediate				
$ per barrel	89.70	91.67	–4.5	+61.4

*Provisional †Non-food agriculturals.

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Child mortality

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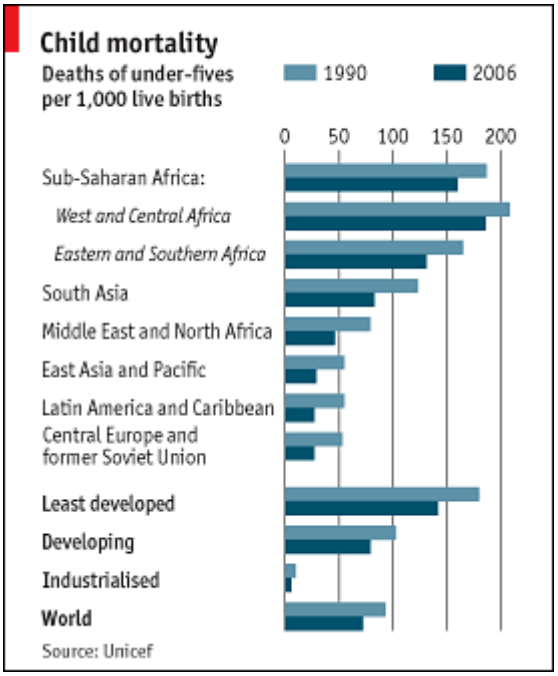
From The Economist print edition

More children are surviving beyond their fifth birthday, according to a new report from the United Nations Children's Fund (Unicef). The child mortality rate—the number of under-fives dying per thousand live births—dropped by almost a quarter worldwide between 1990 and 2006. The rate fell by around a half in Latin America, central Europe and the former Soviet Union, and East Asia. Progress in sub-Saharan Africa, where the death rate is highest, has been slower. Around one in six children in the region still die before the age of five and the rate is rising in some countries. Pneumonia, diarrhoeal diseases and malaria together account for more than two-fifths of child deaths.



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Trade, exchange rates, budget balances and interest rates

Jan 31st 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ Jan 30th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−813.0 Nov	−752.4 Q3	−4.8	–	–	−1.7	2.83	3.73
Japan	+107.0 Nov	+212.9 Nov	+4.8	107	121	−2.5	0.74	1.43
China	+261.5 Dec	+249.9 2006	+10.9	7.19	7.77	0.1	4.50	4.35
Britain	−168.2 Nov	−129.4 Q3	−3.4	0.50	0.51	−3.2	5.56	4.56
Canada	+48.7 Nov	+16.3 Q3	+0.4	1.00	1.18	0.8	3.41	3.92
Euro area	+47.6 Nov	+32.8 Nov	+0.2	0.68	0.77	−0.9	4.38	4.02
Austria	+1.0 Oct	+11.3 Q3	+2.7	0.68	0.77	−0.7	4.38	4.14
Belgium	+18.4 Nov	+13.3 Sep	+2.3	0.68	0.77	−0.6	4.44	4.20
France	−51.7 Nov	−31.6 Nov	−1.3	0.68	0.77	−2.8	4.38	4.14
Germany	+268.1 Nov	+218.0 Nov	+5.6	0.68	0.77	0.8	4.38	4.01
Greece	−53.7 Oct	−44.8 Nov	−12.9	0.68	0.77	−2.7	4.38	4.38
Italy	−10.7 Nov	−43.1 Nov	−2.4	0.68	0.77	−2.6	4.38	4.39
Netherlands	+56.4 Nov	+57.2 Q3	+7.6	0.68	0.77	0.3	4.38	4.12
Spain	−130.1 Nov	−133.0 Oct	−8.9	0.68	0.77	nil	4.38	4.21
Czech Republic	+4.1 Nov	−4.9 Nov	−3.6	17.6	21.6	−2.6	3.92	4.48
Denmark	+4.2 Nov	+4.0 Nov	+1.4	5.04	5.74	2.8	4.75	4.14
Hungary	−0.5 Nov	−6.8 Q3	−6.2	175	197	−4.4	7.50	7.25
Norway	+59.0 Dec	+59.9 Q3	+15.3	5.44	6.26	17.8	5.73	4.43
Poland	−11.8 Nov	−15.8 Nov	−4.1	2.45	3.01	−2.0	5.63	5.73
Russia	+128.2 Nov	+76.6 Q4	+4.0	24.5	26.5	1.0	10.00	6.19
Sweden	+17.8 Dec	+29.4 Q3	+6.4	6.37	6.97	2.3	3.98	4.03
Switzerland	+11.6 Dec	+69.6 Q3	+14.7	1.09	1.25	0.6	2.66	2.85
Turkey	−60.8 Nov	−35.7 Nov	−7.1	1.18	1.41	−2.9	16.58	6.10‡
Australia	−17.6 Nov	−49.9 Q3	−5.4	1.12	1.29	1.4	7.31	6.05
Hong Kong	−22.7 Nov	+26.9 Q3	+6.4	7.80	7.81	2.6	2.50	2.54
India	−67.9 Nov	−10.9 Q3	−2.0	39.4	44.2	−3.3	7.17	7.79
Indonesia	+40.3 Nov	+10.3 Q3	+1.9	9,288	9,100	−1.8	8.03	6.70‡
Malaysia	+29.9 Nov	+28.7 Q3	+12.0	3.24	3.50	−3.1	3.62	3.63‡
Pakistan	−15.2 Dec	−7.3 Q3	−6.5	62.6	60.7	−5.0	9.92	9.90‡
Singapore	+36.1 Dec	+46.3 Q3	+22.4	1.42	1.54	0.1	1.63	2.21
South Korea	+15.3 Dec	+6.0 Dec	+0.8	945	942	0.2	5.67	5.23
Taiwan	+16.7 Dec	+28.4 Q3	+5.9	32.2	32.9	−2.1	2.60	2.52
Thailand	+12.1 Dec	+14.9 Dec	+2.4	33.0	34.7	−2.1	3.35	3.72
Argentina	+11.2 Dec	+6.8 Q3	+1.7	3.16	3.11	1.2	11.31	na
Brazil	+40.0 Dec	+3.6 Dec	−0.1	1.78	2.13	−2.5	11.18	6.16‡
Chile	+24.5 Dec	+6.7 Q3	+4.0	466	544	5.4	6.36	4.12‡
Colombia	−1.8 Oct	−5.2 Q3	−3.8	1,935	2,254	−1.3	9.26	5.87‡
Mexico	−11.2 Dec	−7.5 Q3	−1.4	10.8	11.0	nil	7.43	7.62
Venezuela	+23.4 Q3	+20.2 Q3	+7.0	5.08	4,225§	−2.6	11.20	6.55‡
Egypt	−18.0 Q3	+1.2 Q3	+0.9	5.56	5.70	−7.0	5.99	5.05‡
Israel	−10.2 Dec	+5.9 Q3	+3.3	3.64	4.26	−1.4	4.37	5.29
Saudi Arabia	+146.6 2006	+98.9 2006	+21.8	3.75	3.75	12.0	3.40	na
South Africa	−10.0 Nov	−19.9 Q3	−7.8	7.30	7.25	0.6	11.30	8.56
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.2 Nov	−3.2 Nov	−13.7	10.6	12.0	1.3	6.92	na
Finland	+13.1 Nov	+14.8 Nov	+4.2	0.68	0.77	3.7	4.26	4.12
Iceland	−1.6 Dec	−3.0 Q3	−10.3	64.8	68.4	2.3	13.82	na
Ireland	+37.3 Nov	−11.1 Q3	−3.2	0.68	0.77	−1.1	4.38	4.25
Latvia	−7.2 Nov	−6.5 Oct	−21.5	0.47	0.54	1.0	7.67	na
Lithuania	−6.9 Nov	−5.3 Nov	−14.2	2.34	2.66	−0.6	5.20	na
Luxembourg	−5.9 Oct	+4.7 Q3	na	0.68	0.77	0.9	4.38	na
New Zealand	−4.2 Nov	−10.2 Q3	−7.4	0.78	1.45	3.8	7.30	6.27
Peru	+8.3 Nov	+2.2 Q3	+1.4	0.34	3.20	1.5	3.75	na
Philippines	−5.0 Nov	+5.8 Sep	+5.2	40.8	48.9	−0.4	5.81	na
Portugal	−24.7 Oct	−18.6 Oct	−8.1	0.68	0.77	−2.6	4.38	4.30
Slovakia	−0.9 Nov	−3.5 Sep	−3.1	22.8	26.9	−2.3	4.21	4.30
Slovenia	−2.8 Nov	−1.8 Oct	−2.5	0.68	0.77	−0.8	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

Jan 31st 2008
From The Economist print edition

Markets

	Index Jan 30th	% change on one week	% change on Dec 29th 2006 in local currency	% change on Dec 29th 2006 in $ terms
United States (DJIA)	12,442.8	+1.4	−0.2	−0.2
United States (S&P 500)	1,355.8	+1.3	−4.4	−4.4
United States (NAScomp)	2,349.0	+1.4	−2.7	−2.7
Japan (Nikkei 225)	13,345.0	+4.0	−22.5	−14.0
Japan (Topix)	1,320.1	+5.6	−21.5	−12.8
China (SSEA)	4,636.0	−6.1	+64.7	+78.7
China (SSEB, $ terms)	308.3	−3.3	+118.3	+137.0
Britain (FTSE 100)	5,837.3	+4.1	−6.2	−4.7
Canada (S&P TSX)	12,998.2	+2.7	+0.7	+17.6
Euro area (FTSE Euro 100)	1,194.8	+6.2	−6.6	+4.8
Euro area (DJ STOXX 50)	3,789.3	+5.9	−8.0	+3.1
Austria (ATX)	3,833.6	+4.0	−14.1	−3.7
Belgium (Bel 20)	3,767.1	+8.9	−14.2	−3.8
France (CAC 40)	4,873.6	+5.1	−12.1	−1.4
Germany (DAX)*	6,875.4	+6.8	+4.2	+16.9
Greece (Athex Comp)	4,487.2	+9.5	+2.1	+14.5
Italy (S&P/MIB)	34,274.0	+4.0	−17.3	−7.3
Netherlands (AEX)	443.0	+6.2	−10.6	+0.3
Spain (Madrid SE)	1,432.5	+7.7	−7.9	+3.3
Czech Republic (PX)	1,521.2	+8.3	−4.3	+13.6
Denmark (OMXCB)	393.2	+5.0	−7.3	+4.0
Hungary (BUX)	23,758.0	+2.9	−4.4	+4.5
Norway (OSEAX)	473.0	+6.3	−5.9	+7.7
Poland (WIG)	48,451.0	+6.8	−3.9	+14.2
Russia (RTS, $ terms)	1,981.5	+4.8	−4.1	+3.1
Sweden (Aff.Gen)	299.9	+3.6	−17.9	−11.8
Switzerland (SMI)	7,671.8	+4.3	−12.7	−2.5
Turkey (ISE)	44,304.4	+4.1	+13.3	+36.2
Australia (All Ord.)	5,665.3	+4.0	+0.4	+13.4
Hong Kong (Hang Seng)	23,653.7	−1.8	+18.5	+18.1
India (BSE)	17,758.6	+0.9	+28.8	+44.7
Indonesia (JSX)	2,610.4	+5.4	+44.6	+40.0
Malaysia (KLSE)	1,384.1	+2.2	+26.3	+37.7
Pakistan (KSE)	13,990.1	+1.5	+39.3	+35.4
Singapore (STI)	3,000.0	+0.6	+2.8	+11.1
South Korea (KOSPI)	1,589.1	−2.4	+10.8	+9.1
Taiwan (TWI)	7,543.5	+1.8	−3.6	−2.4
Thailand (SET)	763.5	+3.1	+12.3	+22.9
Argentina (MERV)	2,036.2	+7.7	−2.6	−5.4
Brazil (BVSP)	60,289.0	+11.2	+35.6	+62.7
Chile (IGPA)	12,967.0	+8.3	+4.8	+19.7
Colombia (IGBC)	9,119.2	+4.2	−18.3	−5.4
Mexico (IPC)	28,296.8	+2.4	+7.0	+6.9
Venezuela (IBC)	35,647.1	−0.3	−31.8	−55.1
Egypt (Hermes)	90,624.9	+1.3	+47.9	+51.9
Israel (TA-100)	1,016.6	+1.9	+10.3	+27.7
Saudi Arabia (Tadawul)	9,675.0	+3.4	+22.0	+22.0
South Africa (JSE AS)	27,068.2	+7.7	+8.6	+5.0
Europe (FTSEurofirst 300)	1,329.4	+5.3	−10.4	+0.5
World, dev'd (MSCI)	1,449.4	+3.7	−2.3	−2.3
Emerging markets (MSCI)	1,091.4	+3.4	+19.6	+19.6
World, all (MSCI)	366.2	+3.7	−0.4	−0.4
World bonds (Citigroup)	752.0	−0.3	+14.2	+14.2
EMBI+ (JPMorgan)	436.3	+0.3	+7.1	+7.1
Hedge funds (HFRX)	1,297.8	+1.4	+1.7	+1.7
Volatility, US (VIX)	27.6	29.0	11.6	(levels)
CDSs, Eur (iTRAXX)†	74.3	nil	+218.6	+257.2
CDSs, N Am (CDX)†	113.7	−12.6	+240.1	+240.1
Carbon trading (EU ETS) €‡	20.1	+0.5	+10.2	+23.6

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac. ‡New series.

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Official reserves

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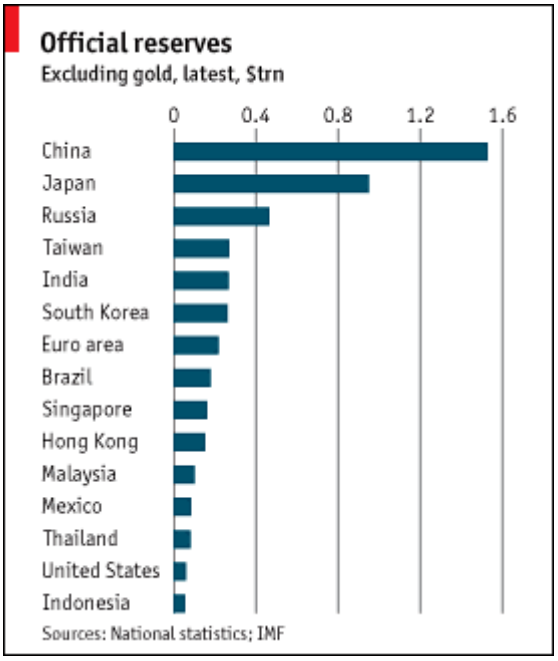
China is by some distance the world's largest holder of foreign-exchange reserves. Its currency hoard passed the $1.5 trillion mark at the end of last year, little more than a year after it reached $1 trillion. China's swollen reserves reflect its current-account surpluses and its exchange-rate policy. Its central bank has bought huge quantities of foreign currency to stop the yuan from rising too quickly. Many other Asian economies have adopted a similar plan. Japan built most of its stockpile earlier in the decade, when it intervened in currency markets to keep the yen weak. Russia's currency stash has doubled in less than two years, thanks to booming revenues from oil and commodity exports.



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